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ABSTRACT

A study of state financial support of higher education in the states served by the Southern Regional Education Board (SREB) suggests a positive correlation between the proportion of state residents paying taxes on incomes of over $20,000 and the proportion of college graduates in the state. It is clear that while there is, nationally, a growing gap between taxing potential and actual tax collection, this underutilization is disproportionately high in the SREB states. It is proposed that these states do have existing tax potentials to support expansion of investments in higher education. Tax underutilization occurs in largest proportion in property taxes, and next in individual and corporate income taxes. Overutilization occurs largely in general and selective sales taxes. A shift in the use of taxation in SREB states may allow them to meet some of their higher education goals. A number of charts and graphic illustrations provide supporting information. (Author/MSE)

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TAXES AND HIGHER EDUCATION: A LOOK AT ACTUAL AND POTENTIAL REVENUES, 1961-1974

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Southern Regional Education Board

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TAXES AND HIGHER EDUCATION: A LOOK AT ACTUAL AND POTENTIAL REVENUES, 1961-1974

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Foreword

A recent statement by the Southern Regional Education Board, Priorities for Postsecondary Education in the South, calls for "adequate, equitable and efficient funding" of postsecondary education. It also cautions, "it is unlikely that postsecondary education will receive a growing proportion of state or societal resources."

The authors of this 15-year analysis of state and local revenues and the financing of higher education in the South pose the possibility of significant increases in public support for higher education without increasing the proportion of state revenues appropriated. These additions would be implemented by drawing upon the tax revenue potential which a state "underutilizes"--measured against average utilization of tax capacity by all states.

A trick formula for accomplishing this expansion of revenue without increasing tax collections is not offered, of course; however, the authors do demonstrate that Southern states often allocate "above average" proportions of their tax revenues to higher education while collecting "below average" revenues, in proportion to income.

As states consolidate their gains in providing adequate postsecondary education programs during the coming years of stabilizing enrollments, they must guard against erosion of educational quality and continue to make that extra effort which is needed in order to catch up with national norms in educational services.

The Board appreciates the efforts of Kenneth E. Quindry, William A. and Irma Perry in directing this project as well as the substantial contribution of the Center for Business and Economic Research, the University of Tennessee in Knoxville, under its Director, David Hake. Members of the Center who made the analysis possible are Patricia Price, Manager of Data Systems; Vernon Roddy, Graduate Research Assistant; Patricia Hunley and Susie Prescott, Production Typists; Mary Brashear, Publications Coordinator; Jeanne Mecklin and Jane Davis, Editorial Assistants; Bonnie Adamson, Artist; in addition to Michelene Piot, Legislative Analyst, Tennessee Department of Finance Administration.

Winfred L. Godwin
President

Preface

Although the average reader may suspect that this publication deals with a rather technical and perhaps even unpleasant subject--taxes--its implications are really quite personal to anyone who is interested in the future of his own family and the progress of the world in which he lives.

The Southern Regional Education Board has always taken the position that higher education is good for the well-being of the individual and is beneficial to society. Since the benefits of education, college education in particular, are sometimes viewed with skepticism today, it is well to restate the conviction that education and the quality of life are, in fact, closely tied together. The emphasis of this study on state financial support of higher education makes it appropriate to suggest the relationship between higher education and the economic well-being of society by reference to the proportion of the population which pays taxes on incomes above $20,000 per annum. Chart A demonstrates the general rule that states with high proportions of college graduates also tend to have large shares of people in higher income tax brackets. But since states with low educational attainment are also the states with more limited resources for potential expansion of higher educational opportunity, can states ever improve their position in this pattern?

It was perhaps the realization of this dilemma which first led Dr. James W. Martin to observe that states make varying use of the revenue potential which each source of taxation commands. His initial analysis for the year 1957 revealed that the SREB states, measured against the average rate of

Relation Between Education and Income

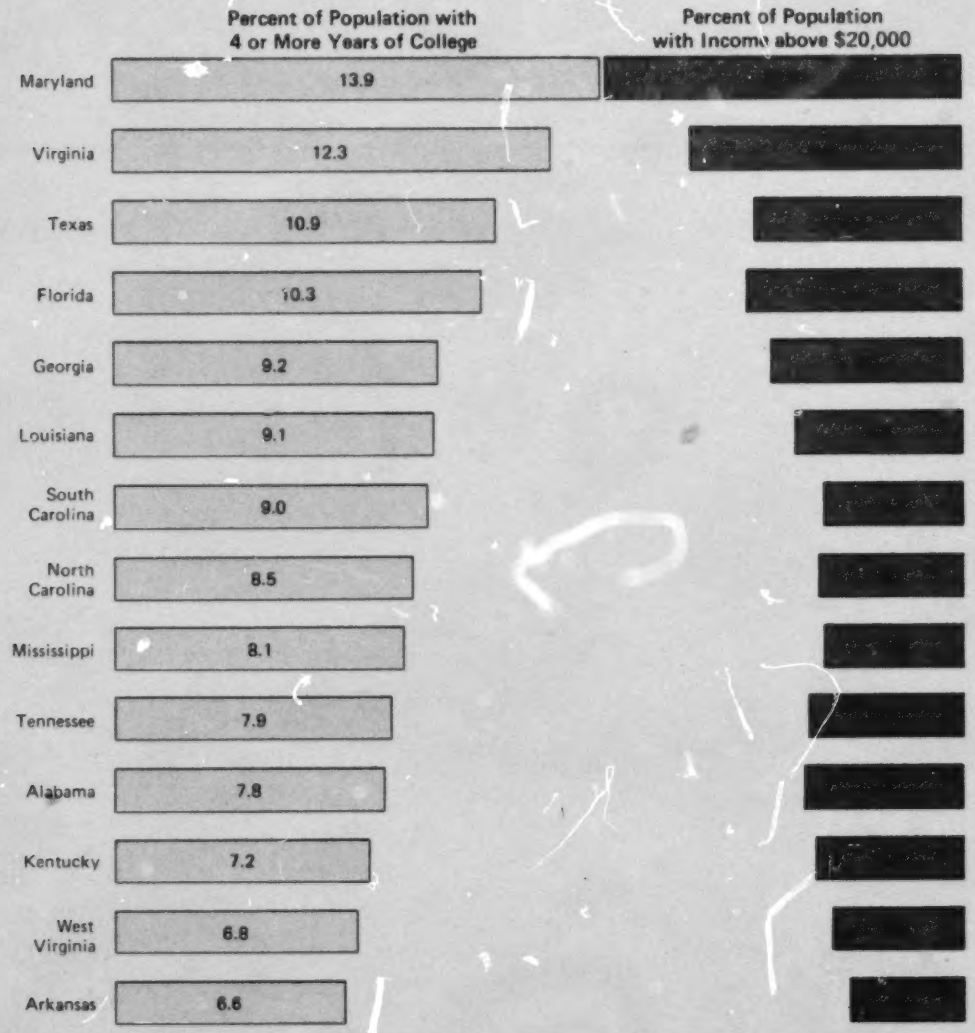

Chart A

collections, were underutilizing their tax potential by over $1.5 billion and suggested that states in need of greater revenue might tap part of that potential, since every state was underutilizing its capacity from some of its several sources of taxation.

Subsequently, similar studies applying to all states were conducted. They revealed a growing spread between tax potential and actual tax collections. For all 50 states and the District of Columbia net underutilization (gross underutilization corrected for overutilization in those states where tax collections exceed potentials) grew from $4.2 billion in 1961 to $5.1 billion in 1974. Underutilization existed in 42 states in 1974, and reached $12.3 billion, up considerably from $4.9 billion in 1961. Even when corrected for inflation, underutilization continues to mount.

The SREB share of the nation's underutilized tax potential has been substantial. In 1974, net underutilization in SREB states was $6 billion, a threefold increase over the region's underutilization in 1961. During the same period, net underutilized taxes in all states that were net underutilizers of their tax systems rose one and a half times--considerably less than for the SREB states. Stated differently, the SREB share of total underutilized potential in the United States was 39 percent in 1961, and 49 percent in 1974.

Since the 1974 share of U.S. state and local taxes collected in SREB states was only 23 percent, this shows that a heavily disproportionate share of total underutilization is available as a bonanza to SREB-state governments in their search for needed revenues. It also suggests that so-called poor states are not necessarily scraping the bottom of the barrel.

The purpose of the present study is to demonstrate that the SREB states do in fact have existing tax potentials to support expansion of the investment in postsecondary education. Each state's net underutilized potential is a result of balancing overutilized versus underutilized taxes. No judgments regarding any state's tax structure or policies are implied.

As Chart B indicates, the largest proportion of underutilization occurs in property taxes, a source, however, which is declining in importance in the nation, having slipped from 45.9 percent of all state and local taxes in 1961 to 36.0 percent in 1974. Individual and corporate income taxes, the other great source of underutilization, which has advanced from 9.7 percent to 19.2 percent of the U.S. total in 13 years, still constitute only 14.2 percent of the total in SREB states. General and selective sales taxes are the major source which is overutilized in the SREB states--to a tune of over $1.6 billion.

Chart B

Over and Underutilization of
Taxes in SREB States, 1974

(000,000's)

Tax	"Overutilized" Taxes	"Underutilized" Taxes
General Sales	$ 476.3	
Selective Sales	1,163.9	
Other	73.0	
Property		$4,321.5
Individual Income		2,754.8
Corporate Income		545.9
Death & Gift		124.3
Total	1,713.2	7,746.5
Net Underutilized		$6,033.3

The authors demonstrate that if states (a) were to collect currently underutilized net tax potentials and (b) apply allocations to higher education which currently prevail, SREB states could reap 58 percent of the U.S. total thus made available (1972). The demonstration offering three alternatives for applying this hypothetical amount to higher education, (raising appropriations per FTE student to the national average, raising levels of attendance of the national average, and assisting private institutions) is merely illustrative, but it is well to note that higher education planning in many states will require augmentation of available resources in order to meet similar goals to which they are committed.

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Chapter I

INTRODUCTION

Purpose and Definitions

The purpose of this report is to provide an overview of the changing state and local underutilization of tax potentials and their possible contributions to financing higher education in the SREB region. Basic trends in actual tax collections, potential tax collections, and over and underutilization are computed and analyzed. Finally, the possibility of using underutilized potential tax collections to support higher education is explored briefly.

To facilitate the tax analyses, several basic terms must be defined. First, a tax represents any of a number of revenue sources such as sales and income taxes or license fees as defined by the U.S. Census of Governments--by extension, the tax system is the aggregate or the sum of tax collections within the state. Second, actual tax collections represents the amount of revenue collected from a tax or tax system during a given year. Third, potential tax collections represents an amount that could be collected by applying a tax rate which is equal to the average rate for states using a particular tax or tax system. The rate is computed as the average collections

divided by a proxy tax base for each state using each particular tax.[1]

Potential tax collections were computed for each of 15 tax sources, by state, and summed to represent potential collections for each state tax system. Comparisons of actual and potential tax collections enable one to recognize those states in which one or more taxes or the tax system is being over- or underutilized. The comparison employs a subtraction process in which each tax in a state is found to be over- or underutilized, and a summing process in which each state's tax system is found to be over- or underutilized. If a state had a higher than average rate for a particular tax, the actual tax collections for that tax were more than the potential tax collections. Conversely, where a state tax was lower than average, the potential tax collections were higher.

By definition, then, an overutilized tax is one in which potential tax collections are less than actual tax collections. Underutilization of a tax occurs when the actual collections are less than potential collections. If by summing overutilized and underutilized taxes, the result is a positive number, the tax system is underutilized. That is, the state could collect

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[1]The rate in the case of the general sales tax, for example, indicates the average effort for 46 states using the tax. The proxy base is personal income; thus, the average rate is stated as revenue per $1,000 of personal income. Other proxy bases are used in a few cases--the rate per registered vehicle for motor vehicle related taxes, and the rate per $1,000 of severed value for severance taxes.

additional revenue by increasing some tax rates and (perhaps) by reducing others to the average so that the aggregate tax rate would be equal to the national norm.

Background

For the past eight years, the Southern Regional Education Board has reported on state and local tax potentials.[2] Prior to 1967, a similar report was prepared for 1961 by Professor James W. Martin at the University of Kentucky.[3] The methodology of comparing state-by-state tax potential and effort developed by Professor Martin has been followed closely in the SREB reports. However, a few minor changes in table content and methodology have been made over the years. Moreover, in the past, data were prepared on a current dollar basis. No effort was made in the annual reports to measure the influence of inflation on taxes and tax potential.

Comparability

The analysis of potential tax collections and over- or underutilization of taxes in this report was prepared with full comparability of data in mind. It brings together data for selected years (1961, 1967, 1970, 1972 and 1974) so that trends can be compared easily.

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[2]The reports were prepared by Kenneth E. Quindry, Center for Business and Economic Research, College of Business Administration, The University of Tennessee, Knoxville.

[3]James W. Martin, Revenue Potentials of the States. Washington: National Education Association, 1964.

To facilitate comparison, the data are presented in both current and constant dollars so that real as well as nominal growth can be evaluated. Current dollars for selected years were converted to 1956 dollars by use of deflators of state and local purchasing power.[4] Current and constant dollar actual tax collections, potential tax collections and underutilized or over-utilized taxes were determined. When possible, the collection data and the table formats were standardized to make data fully comparable over the 14-year span.

Constant dollars in this case refer to the cost of goods and services that state and local governments purchased. While the state and local deflators used may correlate with the consumer price index and other similar constant adjustment measures for the private sector, the deflated figures are not necessarily a measure of real tax burdens, but instead measure the comparative ability of state and local governments to purchase goods and services in each of the years included in the study. Moreover, the reader should be cautioned that the physical increase in public goods and services as measured by deflating the revenues may be absorbed by a greater population. Any additions to the physical goods and services that can be delivered may be distributed among a larger population with no apparent increase in per capita

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[4]The source of the deflators was U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, various July issues, and the National Income Supplements.

delivery of public goods and services.

Finally, the tax collection data presented in this report are not identical with those presented in the earlier annual reports because each state's fiscal year collections are matched against personal income for the same fiscal year instead of against calendar year personal income as was done in the annual reports.

The annual SREB publications have been aimed at providing comparisons of state effort to aid responsible public officials in making decisions concerning the use of alternative tax sources. This report is no different in that respect. It can serve as a guide for states wishing to reform taxes or for those seeking additional funds. Its purpose is not to suggest tax increases or to imply that these are desirable or necessary.

This report provides broad generalizations and selected data from a larger and more comprehensive study.[5] This report is divided into four remaining chapters. Each traces the national, regional and SREB trends. Chapter II shows the data relating to actual tax collections. Chapter III, on potential collections, prepares the groundwork for Chapter IV on underutilized taxes. The final chapter shows several alternative uses that could be made of a reasonable share of the underutilized taxes to increase the support of higher education.

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[5]For a detailed tabular listing of most of the study's findings see: Kenneth E. Quindry, William A. Perry and Irma D. Perry, State and Local Potential to Support Higher Education. Knoxville: Center for Business and Economic Research, The University of Tennessee, 1976.

Chapter II

ACTUAL TAX COLLECTIONS, 1961-1974

National Trends in Actual Collections

This chapter traces the development of state and local tax collections in the nation and in six regional divisions of the nation. Actual collections grew faster in some regions partly because the tax bases grew unevenly and partly because tax increases were more prevalent in some regions than in others.

Map 1 gives an overview of the growth in actual tax collections by state. Percentage increases varied from a high of 408 in Nevada to a low of 141 in South Dakota. The national average was 239 percent. The map clearly shows that taxes grew faster in the regions extending east of the Mississippi River than in the western part of the country, though the pattern by state is extremely mixed. Clearly, the traditionally low tax areas, primarily the SREB region, led in tax increases. The major trend was toward a narrowing of tax differentials (in effort) among the states and regions.

Tables 1 and 2 show the growth trends by tax source that exist in both current and constant dollars.[6]

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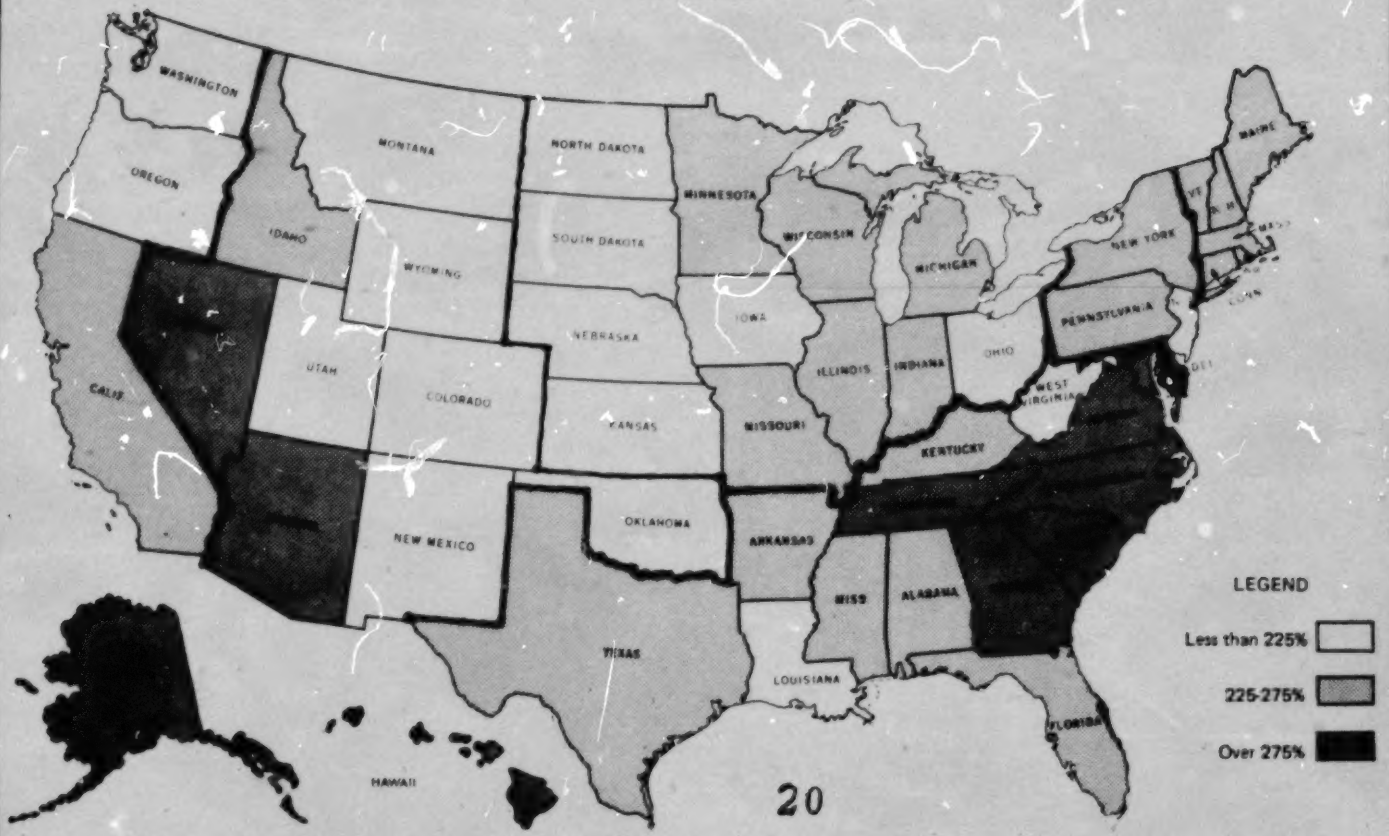
[6]Statistical tables are included at the end of each chapter. Totals may not always add to the last digits (or 000's of dollars) because of faulty rounding in computer programming.

MAP 1

Percentage Increase in Actual Tax Collections, By State, 1961-1974
(Current dollars)



SOURCE: Kenneth E. Quindry, Wm. A. Perry and Irma Perry, State and Local Potential to Support Higher Education, (Knoxville: Center for Business and Economic Research, College of Business Administration, The University of Tennessee, 1976), Tables 5, 9, 13, 17, 21, and 25.

In current dollars, actual tax collections increased to $132.5 billion in 1974 from $39.1 billion in 1961 (239 percent). Due to price increases for goods purchased by governments, $132.5 billion at 1974 prices (the current dollar figure for 1974 in Table 1) would purchase the same size package of goods and services as would $61.5 billion at 1958 prices (the constant dollar figure for 1974 in Table 2).

The leader in percentage growth from 1961 to 1974 was the individual income tax. It far outstripped other major tax increases by increasing over sevenfold (727 percent). Other major percentage advances were: general sales tax, 389 percent; and corporation income tax, 377 percent. The property tax, the largest single tax source, ranked a poor fourth, increasing by only 166 percent. Property taxes, as a result, declined from 45.9 percent of total collections in 1961 to 36.0 percent in 1974. At the same time, individual income taxes increased to 14.7 percent from 6.0 percent and general sales taxes to 19.9 percent from 13.8 percent.

Regional Trends in Actual Tax Collections

Regional growth in actual tax collections, in current dollars, by state, according to three ranges of growth, is presented in Map 1. States within each region have different growth rates and regional differences are the averages of the states within the region. Tables 3 and 4 show the growth in dollars (and indexes of growth) in both current and constant dollars. States in the SREB region increased actual tax collections in current dollars by 277 percent from 1961 to 1974. This was substantially greater than all other

regions. All other regions grew in the 217 to 233 percent range, except New England, which grew 245 percent. Without exception, taxes increased annually in every region. As a result of the different growth rates (two exceeding the national average growth), the New England and the SREB regions gained a larger share of total state and local tax collections and the remaining regions found their shares declining from 1961 to 1974. While the shift was minimal in the New England region, it was rather significant in the SREB region. The percentage of state and local taxes collected in that region increased to 23.4 percent from 21.0 percent. Both the rates and bases of taxes contributed to the increase.

SREB Regional Trends in Actual Tax Collections

According to the data in Table 5 actual tax collections in current dollars increased in the SREB region to $30.9 billion in 1974 from $8.2 billion in 1961. This was an increase of 277 percent, a growth rate above the national rate of 239 percent (Table 3). In constant dollars (Table 6), the actual tax increase was 92 percent in the SREB region. This was also above the national growth rate. The larger constant and current indexes in the SREB region indicate a more rapid increase in services to SREB regional citizens than do the increases in other states. This is especially true when one recognizes that the standard national deflator may be biased against the region because of slower than average increasing governmental cost. However, population growth has exceeded the national average, reducing the apparent improvements somewhat.

Tables 7 and 8 show how each individual tax contributed to the actual tax collection increase. During 1961 to 1974, personal income in the SREB region increased 226 percent. Since the comparable tax increase was 277 percent, there was some increase in tax burdens when computed as a percentage of personal income. Taxes equaled 10.1 percent of personal income in 1974, up from 8.8 percent in 1961.

Florida, because of the imposition of a corporation income tax, and North Carolina, because of its new cigarette tax, were among the growth leaders in taxation. Maryland expanded its individual income taxes to extensive local use. New general sales taxes were imposed in Texas and Virginia during the period.

Largely because of the new impositions, the individual income taxes, the general sales taxes, and the corporation income taxes exceeded the property taxes in percentage growth in the region. The largest tax in dollar terms, the property tax, declined to 26.2 percent of total taxes in 1974, from 35.0 percent in 1961. Individual income taxes increased to 10.4 percent from 5.6 percent. Corporation income taxes advanced to 3.7 percent from 3.0 percent and general sales taxes to 24.1 percent from 14.1 percent.

The decline in property tax use was in line with national trends, only more so. Income taxes were used both less intensively and less extensively in the SREB region than in the nation. On the other hand, sales taxes were relied upon to a greater extent in the region than in the nation. Florida, Tennessee and Texas have yet to levy a broad based individual income tax, and Texas has no corporation income tax. Greater reliance on income based taxes

and less on property and consumption taxes indicate that tax systems may be becoming a little less regressive and a little more responsive to economic growth.

Summary

1. For the U.S., actual tax collections grew to $132.5 billion in 1974 from $39.1 billion in 1961, or by 239 percent, in current dollars.
2. In constant dollars, the growth rate was 72 percent.
3. The individual income tax was the fastest growing of the major taxes. It was followed by the general sales, the corporation income and, finally, by the property tax.
4. As a result of the different growth patterns and the change in emphasis, the nation's state and local tax system became a little less regressive and a little more responsive in 1974 than in 1961. However, the change was not uniform in all regions and states.
5. Dependence on property taxes declined in all six regions and especially in the SREB region. However, the SREB region continued to increase significantly its dependence on general sales taxes.

TABLE I

STATE AND LOCAL TAX COLLECTIONS,
SELECTED YEARS, 1961 TO 1974,
BY TYPE OF TAX, CURRENT DOLLARS
(Dollar Amounts in Thousands)

Tax Source	1974		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
General Sales and Gross Receipts	$ 26,313,968	489	$ 20,292,112	377	$16,078,032	299	$10,103,909	188	$ 5,378,735	100
Alcoholic Beverages	2,395,052	252	2,127,999	224	1,891,079	199	1,367,388	144	949,239	100
Tobacco Products	3,366,755	318	2,999,030	283	2,437,000	230	1,712,252	162	1,058,966	100
Insurance	1,674,960	281	1,479,296	248	1,182,134	199	866,481	146	595,437	100
Public Utilities	3,924,031	590	3,368,608	506	2,648,931	398	1,142,025	172	665,625	100
Other Selective Sales	1,277,051	675	996,006	526	706,875	374	253,776	134	189,238	100
Death and Gift	1,431,314	286	1,291,524	258	1,003,185	200	795,499	159	501,182	100
Property	47,749,376	266	42,132,224	235	34,082,720	190	26,185,776	146	17,939,968	100
Individual Income	19,465,952	827	15,233,757	647	10,794,540	458	5,775,140	245	2,354,622	100
Corporate Income	6,039,638	477	4,401,460	348	3,756,266	297	2,226,633	176	1,266,250	100
Alcoholic Beverage License	142,833	165	136,066	158	119,604	138	138,390	160	86,360	100
Motor Vehicle License	3,754,763	234	3,333,576	207	2,904,035	181	2,299,014	143	1,607,446	100
Motor Vehicle Fuels	8,277,882	240	7,271,941	211	6,318,196	183	4,[illegible]299	141	3,451,239	100
Severance	1,255,032	278	757,598	168	685,892	152	577,085	128	450,995	100
Transfer*	497,378	228	505,267	231	382,105	175	218,405	100	--	--
Other	4,924,467	188	4,065,787	155	3,360,549	128	3,013,590	115	2,615,709	100
TOTAL	$132,500,368	339	$110,392,160	283	$88,351,072	226	$61,531,536	157	$39,110,944	100

*1967=100. This tax source is not computed separately for 1961.

SOURCE: Kenneth E. Quindry, William A. Perry, and Irma Perry, State and Local Potential to Support Higher Education (Knoxville: The University of Tennessee, Center for Business and Economic Research, 1976), Table 1.

TABLE 2

STATE AND LOCAL TAX COLLECTIONS,
SELECTED YEARS, 1961 TO 1974,
BY TYPE OF TAX, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

	1974		1972		1970		1967		1961	
Tax Source	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
General Sales and Gross Receipts	$ 12,239,057	249	$ 11,046,332	225	$ 9,767,942	199	$ 7,407,561	151	$ 4,916,577	100
Alcoholic Beverages	1,113,977	128	1,158,409	134	1,148,893	132	1,002,484	116	867,677	100
Tobacco Products	1,565,932	162	1,632,569	169	1,480,559	153	1,255,217	130	967,976	100
Insurance	779,051	143	805,278	148	718,186	132	635,250	117	544,275	100
Public Utilities	1,825,131	300	1,833,755	301	1,609,314	265	837,262	138	608,432	100
Other Selective Sales	593,977	343	543,192	313	429,450	248	186,009	108	172,978	100
Death and Gift	665,728	145	703,062	153	609,468	133	583,211	127	458,119	100
Property	22,213,664	135	22,935,328	140	20,706,384	126	19,197,776	117	16,398,510	100
Individual Income	9,053,932	421	8,292,733	385	6,558,044	305	4,233,975	197	2,152,305	100
Corporate Income	2,809,134	243	2,396,004	207	2,282,057	197	1,632,429	141	1,157,499	100
Alcoholic Beverage License	66,434	84	74,070	94	72,663	92	101,459	129	78,940	100
Motor Vehicle License	1,746,401	119	1,814,684	124	1,764,307	120	1,685,494	115	1,469,329	100
Motor Vehicle Fuels	3,850,178	122	3,958,596	125	3,838,515	122	3,560,338	113	3,154,697	100
Severance	583,736	142	412,410	100	416,702	101	423,083	103	412,244	100
Transfer*	231,339	144	275,050	172	232,142	145	160,121	100	--	--
Other	2,290,450	96	2,213,275	93	2,041,645	85	2,209,377	92	2,390,959	100
TOTAL	$ 61,628,032	172	$ 60,093,664	168	$53,676,192	150	$45,111,088	126	$35,750,400	100

*1967=100. This tax source is not computed separately for 1961.

SOURCE: Quindry, Perry, and Perry, op. cit., Table 2.

TABLE 3

STATE AND LOCAL TAX COLLECTIONS,
SELECTED YEARS, 1961 TO 1974,
BY REGION, CURRENT DOLLARS
(Dollar Amounts in Thousands)

Region	1974		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
New England States	$ 8,501,743	345	$ 7,248,331	294	$ 5,565,815	226	$ 3,816,598	155	$ 2,467,743	100
Middle Atlantic States	29,987,496	334	25,251,088	281	19,955,840	222	14,086,900	157	8,980,256	100
North Central States	35,451,136	317	29,655,184	265	24,257,552	217	16,784,640	150	11,190,133	100
SREB States	30,890,408	376	24,625,696	300	19,607,440	239	13,575,200	165	8,216,668	100
Mountain States	6,613,875	326	5,410,840	267	4,286,026	211	3,143,300	155	2,028,275	100
Pacific States	20,511,408	329	17,743,520	285	14,294,534	230	10,125,100	163	6,227,968	100
District of Columbia	544,487	142	457,700	119	384,067	100*	--	--	--	--
TOTAL	$132,500,368	339	$110,392,160	282	$88,351,072	226	$61,531,536	157	$39,110,944	100

*1967=100. The District is not included in previous years.

SOURCE: Quindry, Perry, and Perry, op. cit., Table 3.

TABLE 4

STATE AND LOCAL TAX COLLECTIONS,
SELECTED YEARS, 1961 TO 1974,
BY REGION, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

	1974		1972		1970		1967		1961	
Region	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
New England States	$ 3,954,313	175	$ 3,945,740	175	$ 3,381,413	150	$ 2,798,089	124	$ 2,255,704	100
Middle Atlantic States	13,947,671	170	13,745,842	167	12,123,854	148	10,327,636	126	8,208,639	100
North Central States	16,488,938	161	16,143,290	158	14,737,309	144	12,305,462	120	10,228,635	100
SREB States	14,367,669	191	13,405,411	178	11,912,188	159	9,952,489	133	7,510,660	100
Mountain States	3,076,217	166	2,945,471	159	2,603,901	140	2,304,469	124	1,853,995	100
Pacific States	9,540,230	168	9,658,974	170	8,684,399	153	7,423,089	130	5,692,836	100
District of Columbia*	253,249	109	249,156	107	233,333	100	--	--	--	--
TOTAL	$61,628,032	172	$60,093,664	168	$53,676,192	150	$45,111,088	126	$35,750,400	100

*1970=100. The District is not included in previous years.

SOURCE: Quindry, Perry, and Perry, op. cit., Table 4.

TABLE 5

STATE AND LOCAL TAX COLLECTIONS, SREB STATES,
SELECTED YEARS, 1961 TO 1974,
BY STATE, CURRENT DOLLARS
(Dollar Amounts in Thousands)

State	1974		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
Alabama	$ 1,419,505	345	$ 1,140,264	277	$ 927,476	225	$ 685,800	167	$ 411,873	100
Arkansas	805,319	340	630,500	266	492,100	208	394,200	166	237,100	100
Florida	4,326,702	437	3,297,737	333	2,461,600	249	1,658,600	168	989,400	100
Georgia	2,359,222	396	1,882,535	316	1,476,900	248	1,030,200	173	595,200	100
Kentucky	1,494,330	336	1,178,936	265	979,500	220	689,600	155	445,003	100
Louisiana	1,891,121	303	1,594,016	255	1,230,900	197	955,300	153	625,100	100
Maryland	2,773,855	427	2,225,813	343	1,895,600	292	1,202,800	185	649,800	100
Mississippi	1,010,597	346	795,481	273	674,054	231	462,200	158	291,900	100
North Carolina	2,536,033	380	2,012,969	302	1,667,688	250	1,141,600	171	666,917	100
South Carolina	1,200,740	379	925,041	292	730,200	231	522,200	165	316,600	100
Tennessee	1,857,605	377	1,511,650	307	1,178,900	239	822,500	167	492,600	100
Texas	5,814,823	362	4,661,860	290	3,710,500	231	2,488,300	155	1,606,300	100
Virginia	2,575,243	427	2,055,202	341	1,640,184	272	1,109,600	184	603,386	100
West Virginia	825,361	289	713,748	250	539,870	189	412,300	144	285,489	100
TOTAL	$30,890,408	376	$24,625,696	300	$19,607,440	239	$13,575,200	165	$ 8,216,668	100

SOURCE: Quindry, Perry, and Perry, op. cit., Table 17.

TABLE 6

STATE AND LOCAL TAX COLLECTIONS, SREB STATES,
SELECTED YEARS, 1961 TO 1974,
BY STATE, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

State	1974		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
Alabama	$ 660,234	175	$ 620,720	165	$ 563,472	150	$ 502,786	134	$ 376,483	100
Arkansas	374,567	173	343,222	158	298,967	138	289,003	133	216,727	100
Florida	2,012,416	223	1,795,171	198	1,495,501	165	1,215,980	134	904,387	100
Georgia	1,097,311	202	1,024,787	188	897,266	165	755,279	139	544,058	100
Kentucky	695,037	171	641,772	158	595,079	146	505,572	124	406,767	100
Louisiana	879,591	154	867,727	152	749,027	131	700,366	123	571,389	100
Maryland	1,290,160	217	1,211,653	204	1,151,639	194	881,818	148	593,967	100
Mississippi	470,045	176	433,032	162	409,510	153	338,856	127	266,819	100
North Carolina	1,179,570	193	1,095,790	180	1,013,176	166	836,950	137	609,613	100
South Carolina	558,484	193	503,560	174	443,620	153	382,844	132	289,396	100
Tennessee	864,002	192	822,890	183	716,221	159	603,006	134	450,274	100
Texas	2,704,566	184	2,537,754	173	2,254,249	154	1,824,264	124	1,468,279	100
Virginia	1,197,785	217	1,118,779	203	996,466	181	813,490	147	551,541	100
West Virginia	383,889	147	388,540	149	327,989	126	302,272	116	260,958	100
TOTAL	$14,367,669	191	$13,405,411	178	$11,912,188	159	$ 9,952,489	133	$ 7,510,660	100

SOURCE: Quindry, Perry, and Perry, op. cit., Table 18.

TABLE 7

STATE AND LOCAL TAX COLLECTIONS, SREB STATES,
SELECTED YEARS, 1961 TO 1974,
BY TYPE OF TAX, CURRENT DOLLARS
(Dollar Amounts in Thousands)

Tax Source	1974		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
General Sales and Gross Receipts	$ 7,466,529	646	$ 5,686,301	492	$ 4,244,256	367	$ 2,432,551	210	$ 1,156,405	100
Alcoholic Beverages	908,413	312	759,737	261	652,676	224	452,270	156	290,840	100
Tobacco Products	873,707	291	778,241	259	592,370	197	436,877	145	300,316	100
Insurance	509,033	333	415,530	272	319,768	209	238,345	156	152,654	100
Public Utilities	1,434,112	876	1,196,434	731	1,017,824	622	335,013	205	163,670	100
Other Selective Sales	597,528	699	459,197	537	307,863	360	148,202	173	85,515	100
Death and Gift	249,365	408	199,374	327	137,804	226	118,514	194	61,046	100
Property	8,110,228	282	6,817,984	237	5,593,264	195	4,450,684	155	2,874,400	100
Individual Income	3,233,029	699	2,436,679	527	1,876,335	406	1,026,145	222	462,517	100
Corporate Income	1,148,656	470	756,966	310	581,647	238	481,731	197	244,424	100
Alcoholic Beverage License	31,185	380	26,482	323	14,303	174	11,239	137	8,209	100
Motor Vehicle License	1,048,435	273	889,824	232	755,948	197	582,342	152	384,200	100
Motor Vehicle Fuels	2,752,789	247	2,338,654	210	1,950,296	175	1,539,089	138	1,113,052	100
Severance	1,020,251	291	587,361	168	545,823	156	458,191	131	350,494	100
Transfer*	193,808	466	134,030	323	65,557	158	41,547	100	--	--
Other	1,313,386	231	1,142,964	201	951,738	167	822,460	145	568,926	100
TOTAL	$30,890,408	376	$24,625,696	300	$19,607,440	239	$13,575,200	165	$ 8,216,668	100

*1967=100. This tax source is not computed separately for 1961.

SOURCE: Quindry, Perry, and Perry, op. cit., Table 19.

TABLE 8

STATE AND LOCAL TAX COLLECTIONS, SREB STATES,
SELECTED YEARS, 1961 TO 1974,
BY TYPE OF TAX, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

	1974		1972		1970		1967		1961	
Tax Source	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
General Sales and Gross Receipts	$ 3,472,804	329	$ 3,095,428	293	$ 2,578,527	244	$ 1,783,395	169	$ 1,057,043	100
Alcoholic Beverages	422,518	159	415,572	156	396,523	149	331,576	125	265,850	100
Tobacco Products	406,396	148	423,647	154	359,885	131	320,291	117	274,512	100
Insurance	236,760	170	226,200	162	194,270	139	174,740	125	139,537	100
Public Utilities	667,029	446	651,298	435	618,362	413	245,611	164	149,607	100
Other Selective Sales	277,920	356	249,971	320	187,037	239	108,653	139	78,167	100
Death and Gift	115,984	208	108,532	194	83,721	150	86,887	156	55,801	100
Property	3,772,199	144	3,711,477	141	3,398,094	129	3,262,966	124	2,627,422	100
Individual Income	1,503,734	356	1,326,444	314	1,139,956	270	752,306	178	422,776	100
Corporate Income	534,259	239	412,066	184	353,370	158	353,175	158	223,422	100
Alcoholic Beverage License	14,505	193	14,416	192	8,690	116	8,240	110	7,504	100
Motor Vehicle License	487,644	139	484,390	138	459,264	131	426,937	122	351,188	100
Motor Vehicle Fuels	1,280,367	126	1,273,083	125	1,184,870	116	1,128,364	111	1,017,415	100
Severance	474,535	148	319,739	100	331,606	104	335,917	105	320,378	100
Transfer*	90,143	296	72,961	240	39,828	131	30,460	100	--	--
Other	610,878	117	622,191	120	578,213	111	602,977	116	520,042	100
TOTAL	$14,367,669	191	$13,405,411	178	$11,912,163	159	$ 9,952,489	133	$ 7,516,660	100

*1967=100. This tax source is not computed separately for 1961.

SOURCE: Quindry, Perry, and Perry, op. cit., Table 20.

Chapter III

POTENTIAL TAX COLLECTIONS, 1961-1974

National Trends in Potential Tax Collections

As indicated previously, potential tax collections are in relative rather than absolute terms. Earlier reference has been made to potential collections from a particular tax (the average rate times the base) and in a particular state or region (the aggregate of the potential of all taxes in the state or region). The nation's state and local potential tax collections can also be determined. This is accomplished by aggregating the potential collections for every tax for every state.

The aggregate state and local potential collections tend to increase when the state and local tax bases (proxy base) increase and/or when the average tax rates increase.

Tables 9 and 10 show that the growth of potential tax collections followed the same general pattern as the increase in actual tax collections. That is, as potential increased so did tax collections. State and local potential tax collections increased to $137.6 billion in 1974 from $43.4 billion in 1961 in current dollars. In constant dollars the increase was to $64.0 billion from $39.6 billion. Potential collections in current dollars increased by 217 percent while actual collections increased 239 percent, indicating a more intensive use of the tax potential.

The individual income tax ranked first in potential tax growth because

of its high responsiveness to economic growth and because of legislative activity (new taxes and increased rates). Its potential grew by 439 percent in current dollars and 174 percent in constant dollars. The income tax was followed by the general sales tax (300 percent and 103 percent, respectively) and the corporation income tax (251 percent and 78 percent, respectively). Property taxes ranked a low fourth, increasing only 165 percent in current dollars and 35 percent in constant dollars. The major selective sales taxes ranked low in growth primarily because of their relative unresponsiveness to economic growth and in spite of numerous rate increases.

Regional Trends in Potential Tax Collections

The shading on Map 2 designates the states and regions by rate of growth in potential tax collections. This pattern closely parallels the growth trends of personal income since this is the primary proxy base. The SREB region, which led in economic growth during this 14-year span, also led in expansion of its tax potential. Other areas experienced growth, but the regional growth rates were more moderate.

Tables 11 and 12 provide the data and indices of growth by region. Three regions, the SREB region, the Mountain region, and the Pacific region grew faster than the national average of 217 percent in current dollars from 1961 to 1974. Potential tax collections actually decreased from 1972 to 1974 in constant dollars in the New England region and the Middle Atlantic region and grew only marginally in the Pacific region. For all states constant dollar growth was minor for the period 1972 to 1974.

MAP 2

Percentage Increase in Potential Tax Collections, By State, 1961-1974
(Current dollars)

SOURCE: Quindry, Perry and Perry, op. cit., Tables 33, 37, 41, 45, 49 and 53.

SREB Regional Trends in Potential Tax Collections

The growth in potential tax collections in the SREB region far outstripped that of the nation and all other regions. Potential collections in current dollars increased to $36.9 billion in 1974, from $10.1 billion in 1961 (Table 13)--an increase of 265 percent, while actual collections increased 276 percent. Regional growth exceeded the national average of 217 percent for potential tax collections by 48 points. In 13 of the 14 SREB states, growth exceeded national growth. The exception was West Virginia. The SREB regional share of all states' potential collections increased to 26.8 percent in 1974 from 23.3 percent in 1961 as a result of the remarkable economic growth enjoyed by these states from 1961 to 1974. Florida was the leader in potential growth. It was exceeded by only one other state in the nation (Nevada). In fact, nine of fifteen states registering potential growth over 250 percent from 1961 to 1974 were SREB states. The nine SREB states are joined by Alaska, Arizona, Colorado, Hawaii, Nevada and North Dakota.

According to the data in Table 14, constant dollar growth reached 86 percent from 1961 to 1974. This was significantly greater than the national average. Every state in the region except West Virginia exceeded the national average of 61 percent.

Potential growth patterns by tax source followed the national pattern. However, from 1972 to 1974 the decline in constant property tax potential was less and the increases in the constant income and general sales tax potential were greater than in the other five regions (Tables 15 and 16).

According to data in Tables 15 and 16, the individual income tax demonstrated excellent growth in potential from 1961 to 1974. Its growth in potential collections outstripped the national growth by 527 percent to 439 percent. The 527 growth was the greatest for any region for any major tax.

The individual income tax was followed in growth by the general sales tax (365 percent) and the corporation income tax (308 percent), both of which rates exceeded the national rate. The SREB regional growth potential for property taxes, at 208 percent, also exceeded the nation's growth potential though growth for this tax was much more moderate than for other major taxes.

Summary

1. The potential tax collections for the nation increased by 217 percent while actual collections increased by 239 percent from 1961 to 1974. This indicates a more intensive use of tax potential.
2. The individual income tax ranked first in potential tax collection growth, primarily because of its high responsiveness to economic growth.
3. The individual income tax was followed by the general sales tax, the corporation income tax, and the property tax in that order.
4. Growth in potential collections was not uniform in all regions and states. Growth patterns were identical to growth patterns in personal income.

5. The SREB region, the Mountain region, and the Pacific region grew faster in potential collections than the nation. The remaining three regions grew slower. These last three were generally more mature industrial regions where economic growth lagged.

6. Thirteen of the 14 SREB states grew faster than the national average in potential collections.

7. In the SREB region, the individual income tax was the leader in growth potential.

8. In addition to the individual income tax, growth in the corporation income tax and the general sales tax was greater than the national average in the SREB states.

TABLE 9

STATE AND LOCAL POTENTIAL TAX COLLECTIONS,
SELECTED YEARS, 1961 TO 1974,
BY TYPE OF TAX, CURRENT DOLLARS
(Dollar Amounts in Thousands)

Tax Source	1974		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
General Sales and Gross Receipts	$ 26,854,160	400	$ 20,695,568	308	$16,391,435	244	$10,652,890	159	$ 6,719,933	100
Alcoholic Beverages	2,395,039	251	2,127,980	223	1,891,063	198	1,374,705	144	954,792	100
Tobacco Products	3,366,741	307	2,999,010	274	2,436,978	222	1,755,879	160	1,095,863	100
Insurance	1,674,948	280	1,486,329	248	1,188,179	198	871,124	145	598,919	100
Public Utilities	4,040,395	541	3,472,581	465	2,648,914	354	1,246,591	167	747,443	100
Other Selective Sales	1,311,832	656	1,025,014	513	714,904	358	292,395	146	199,825	100
Death and Gift	1,435,619	284	1,301,472	258	1,005,995	199	801,795	159	505,193	100
Property	47,759,088	265	42,131,872	233	34,082,432	189	26,325,888	146	18,044,880	100
Individual Income	23,003,600	539	18,619,968	436	13,207,847	309	8,354,153	196	4,271,601	100
Corporate Income	6,510,239	351	4,762,193	256	4,466,875	241	3,139,986	169	1,856,971	100
Alcoholic Beverage License	143,450	165	137,312	157	120,728	138	139,663	160	87,199	100
Motor Vehicle License	3,754,740	234	3,333,559	207	2,904,030	181	2,304,867	143	1,607,435	100
Motor Vehicle Fuels	8,277,862	240	7,271,919	211	6,318,175	183	4,868,683	141	3,451,219	100
Severance	1,568,113	260	950,144	157	877,957	145	732,831	121	603,798	100
Transfer*	599,505	213	407,847	145	286,991	102	281,657	100	--	--
Other	4,924,467	188	4,065,787	155	3,360,549	128	3,013,590	115	2,615,709	100
TOTAL	$137,619,712	317	$114,788,480	265	$91,902,944	212	$66,156,624	153	$43,360,720	100

*1967=100. This tax source is not computed separately for 1961.

SOURCE: Quindry, Perry, and Perry, op. cit., Table 29.

TABLE 10

STATE AND LOCAL POTENTIAL TAX COLLECTIONS,
SELECTED YEARS, 1961 TO 1974,
BY TYPE OF TAX, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

Tax Source	1974 Amount	1974 Index	1972 Amount	1972 Index	1970 Amount	1970 Index	1967 Amount	1967 Index	1961 Amount	1961 Index
General Sales and Gross Receipts	$12,490,309	203	$11,265,960	183	$ 9,958,345	162	$ 7,810,040	127	$ 6,142,535	100
Alcoholic Beverages	1,113,971	128	1,158,399	133	1,148,884	132	1,007,849	115	872,753	100
Tobacco Products	1,565,926	156	1,632,558	163	1,480,545	148	1,287,301	129	1,001,703	100
Insurance	779,046	142	809,107	148	721,858	132	638,651	117	547,458	100
Public Utilities	1,879,253	275	1,890,354	277	1,609,303	236	913,923	134	683,220	100
Other Selective Sales	610,155	334	557,983	305	434,328	238	214,366	117	182,655	100
Death and Gift	667,730	145	708,477	153	611,176	132	587,827	127	461,785	100
Property	22,213,520	135	22,935,152	139	20,706,208	126	19,300,512	117	16,494,407	100
Individual Income	10,699,350	274	10,136,074	260	8,024,208	206	6,124,748	157	3,904,571	100
Corporate Income	3,028,018	178	2,592,375	153	2,713,775	160	2,302,043	136	1,697,414	100
Alcoholic Beverage License	66,721	84	74,748	94	73,346	92	102,392	128	79,707	100
Motor Vehicle License	1,746,391	119	1,814,675	124	1,764,295	120	1,689,785	115	1,469,319	100
Motor Vehicle Fuels	3,850,169	122	3,958,584	125	3,838,502	122	3,569,417	113	3,154,679	100
Severance	729,355	132	517,226	94	533,388	97	537,266	97	551,918	100
Transfer*	278,840	135	222,018	108	174,357	84	206,493	100	--	--
Other	2,290,450	96	2,213,275	93	2,041,645	85	2,209,377	92	2,390,959	100
TOTAL	$64,009,136	161	$62,486,880	158	$55,834,096	141	$48,501,920	122	$39,635,008	100

*1967=100. This tax source is not computed separately for 1961.

SOURCE: Quindry, Perry, and Perry, op. cit., Table 30.

TABLE 11

STATE AND LOCAL POTENTIAL TAX COLLECTIONS,
SELECTED YEARS, 1961 TO 1974,
BY REGION, CURRENT DOLLARS
(Dollar Amounts in Thousands)

Region	1974		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
New England States	$ 7,985,361	295	$ 6,887,693	254	$ 5,614,859	207	$ 4,135,127	153	$ 2,708,644	100
Middle Atlantic States	26,963,824	280	23,225,712	241	18,800,928	195	13,633,527	142	9,632,021	100
North Central States	38,411,200	307	31,812,672	254	25,955,744	207	19,153,616	153	12,516,320	100
SREB States	36,923,696	365	30,090,704	297	23,371,008	231	16,349,032	161	10,126,163	100
Mountain States	7,464,684	333	5,968,940	266	4,626,155	206	3,267,478	146	2,241,862	100
Pacific States	19,282,832	325	16,295,816	275	13,113,349	221	9,305,452	157	5,931,812	100
District of Columbia	588,742	288	507,448	249	421,202	206	312,755	153	204,072	100
TOTAL	$137,619,712	317	$114,788,480	265	$91,902,944	212	$66,156,624	153	$43,360,720	100

SOURCE: Quindry, Perry, and Perry, op. cit., Table 31.

TABLE 12

STATE AND LOCAL POTENTIAL TAX COLLECTIONS,
SELECTED YEARS, 1961 TO 1974,
BY REGION, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

Region	1974		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
New England States	$ 3,714,115	150	$ 3,749,420	151	$ 3,411,211	138	$ 3,031,614	122	$ 2,475,904	100
Middle Atlantic States	12,541,347	142	12,643,319	144	11,422,214	130	9,995,251	114	8,804,402	100
North Central States	17,865,680	156	17,317,728	151	15,769,033	138	14,042,260	123	11,440,871	100
SREB States	17,173,824	186	16,380,372	177	14,198,697	153	11,986,091	129	9,256,084	100
Mountain States	3,471,941	169	3,249,282	159	2,810,538	137	2,395,509	117	2,049,230	100
Pacific States	8,968,778	165	8,870,877	164	7,966,788	147	6,822,174	126	5,422,126	100
District of Columbia	273,833	147	276,237	148	255,894	137	229,292	123	186,537	100
TOTAL	$ 64,009,136	161	$ 62,486,880	158	$55,834,096	141	$48,501,920	122	$39,635,008	100

SOURCE: Quindry, Perry, and Perry, op. cit., Table 32.

TABLE 13

STATE AND LOCAL POTENTIAL TAX COLLECTIONS, SREB STATES,
SELECTED YEARS, 1961 TO 1974,
CURRENT DOLLARS
(Dollar Amounts in Thousands)

State	1974		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
Alabama	$ 1,884,158	333	$ 1,562,681	276	$ 1,193,041	211	$ 879,184	155	$ 566,094	100
Arkansas	1,072,648	370	835,901	288	649,485	224	471,628	163	290,072	100
Florida	5,096,976	449	3,997,460	352	2,938,689	259	1,897 585	167	1,134,248	100
Georgia	2,761,182	394	2,282,492	325	1,786,441	255	1,210,941	173	701,407	100
Kentucky	1,849,203	329	1,496,101	266	1,162,148	207	844,781	150	562,302	100
Louisiana	2,230,631	340	1,830,638	279	1,451,875	221	1,100,207	167	656,993	100
Maryland	2,819,403	370	2,383,545	313	1,869,043	246	1,323,681	174	761,124	100
Mississippi	1,091,231	352	893,305	288	680,145	220	491,277	159	309,759	100
North Carolina	2,988,988	381	2,455,473	313	1,908,630	244	1,307,309	167	783,553	100
South Carolina	1,410,090	384	1,138,318	310	881,934	240	618,632	168	367,189	100
Tennessee	2,273,035	364	1,862,998	298	1,432,011	229	1,032,308	165	624,448	100
Texas	7,370,694	338	6,005,008	275	4,867,682	223	3,317,525	152	2,179,925	100
Virginia	3,071,965	373	2,516,131	305	1,911,528	232	1,362,724	165	824,468	100
West Virginia	1,003,581	275	830,729	228	638,433	175	491,270	135	364,590	100
TOTAL	$36,923,696	365	$30,090,704	297	$23,371,008	231	$16,349,032	161	$10,126,163	100

SOURCE: Quindry, Perry, and Perry, op. cit., Table 45.

TABLE 14

STATE AND LOCAL POTENTIAL TAX COLLECTIONS, SREB STATES,
SELECTED YEARS, 1961 TO 1974,
CONSTANT DOLLARS
(Dollar Amounts in Thousands)

State	1974		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
Alabama	$ 876,352	169	$ 850,670	164	$ 724,812	140	$ 644,563	125	$ 517,453	100
Arkansas	498,906	188	455,035	172	394,583	149	345,768	130	265,148	100
Florida	2,370,682	229	2,176,075	210	1,785,346	172	1,391,187	134	1,036,789	100
Georgia	1,284,268	200	1,242,506	194	1,085,320	169	887,787	138	641,140	100
Kentucky	860,094	167	814,426	158	706,043	137	619,341	120	513,987	100
Louisiana	1,037,502	173	996,536	166	882,062	147	806,603	134	600,542	100
Maryland	1,311,346	188	1,297,516	186	1,135,504	163	970,441	139	695,726	100
Mississippi	507,549	179	486,284	172	413,210	146	360,174	127	283,143	100
North Carolina	1,390,223	194	1,336,671	187	1,159,553	162	958,438	134	716,227	100
South Carolina	655,855	195	619,661	185	535,804	160	453,542	135	335,638	100
Tennessee	1,057,225	185	1,014,152	178	869,994	152	756,824	133	570,793	100
Texas	3,428,226	172	3,268,917	164	2,957,274	148	2,432,200	122	1,992,614	100
Virginia	1,428,816	190	1,369,692	182	1,161,315	154	999,065	133	753,627	100
West Virginia	466,781	140	452,220	136	387,869	116	360,168	108	333,263	100
TOTAL	$17,173,824	186	$16,380,372	177	$14,198,697	153	$11,986,091	129	$ 9,256,084	100

SOURCE: Quindry, Perry, and Perry, op. cit., Table 46.

TABLE 15

STATE AND LOCAL POTENTIAL TAX COLLECTIONS, SREB STATES,
SELECTED YEARS, 1961 TO 1974,
BY TYPE OF TAX, CURRENT DOLLARS
(Dollar Amounts in Thousands)

Tax Source	1974		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
General Sales and Gross Receipts	$ 6,990,180	465	$ 5,257,084	350	$ 4,017,424	267	$ 2,520,231	168	$ 1,501,537	100
Alcoholic Beverages	623,430	292	540,551	253	463,489	217	325,226	152	213,485	100
Tobacco Products	876,363	358	761,809	311	597,291	244	415,404	170	245,028	100
Insurance	435,990	326	377,557	282	291,215	217	206,088	154	133,915	100
Public Utilities	1,051,714	629	882,104	528	649,234	388	294,916	176	167,124	100
Other Selective Sales	341,470	764	260,373	583	175,218	392	69,174	155	44,680	100
Death and Gift	373,692	331	330,600	293	246,562	218	189,686	168	112,958	100
Property	12,431,715	308	10,702,357	265	8,353,422	207	6,228,154	154	4,034,728	100
Individual Income	5,987,842	627	4,729,826	495	3,237,149	339	1,976,405	207	955,107	100
Corporate Income	1,694,609	408	1,209,689	291	1,094,804	264	742,854	179	415,210	100
Alcoholic Beverage License	37,340	192	34,880	179	29,590	152	33,041	169	19,497	100
Motor Vehicle License	1,171,475	261	1,017,902	227	862,806	192	671,163	150	448,780	100
Motor Vehicle Fuels	2,582,674	268	2,220,470	230	1,877,162	195	1,417,725	147	963,547	100
Severance	855,855	285	518,989	173	453,623	151	369,871	123	300,641	100
Transfer*	156,050	234	103,601	155	70,340	106	66,634	100	--	--
Other	1,313,388	231	1,142,964	201	951,738	167	822,460	145	568,926	100
TOTAL	$36,923,696	365	$30,090,704	297	$23,371,008	231	$16,349,032	161	$10,126,163	100

*1967=100. This tax source is not computed separately for 1961.

SOURCE: Quindry, Perry, and Perry, op. cit., Table 47.

TABLE 16

STATE AND LOCAL POTENTIAL TAX COLLECTIONS, SREB STATES,
SELECTED YEARS, 1961 TO 1974,
BY TYPE OF TAX, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

Tax Source	1974		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
General Sales and Gross Receipts	$ 3,251,233	237	$ 2,861,776	208	$ 2,440,719	178	$ 1,847,677	135	$ 1,373,434	100
Alcoholic Beverages	289,967	149	294,258	151	281,585	144	238,436	122	195,142	100
Tobacco Products	407,611	182	414,703	185	362,874	162	304,549	136	223,974	100
Insurance	202,786	166	205,529	168	176,923	145	151,091	123	122,409	100
Public Utilities	489,169	320	480,187	314	394,431	258	216,214	142	152,764	100
Other Selective Sales	158,823	389	141,738	347	106,451	261	50,714	124	40,841	100
Death and Gift	173,810	168	179,967	174	149,795	145	139,066	135	103,252	100
Property	5,782,194	157	5,825,997	158	5,074,983	138	4,566,097	124	3,688,051	100
Individual Income	2,785,043	319	2,574,755	295	1,966,676	225	1,448,977	166	873,041	100
Corporate Income	788,190	208	658,513	174	665,130	175	544,615	143	379,534	100
Alcoholic Beverage License	17,367	97	18,987	107	17,977	101	24,224	136	17,822	100
Motor Vehicle License	544,872	133	554,111	135	524,184	128	492,055	120	410,219	100
Motor Vehicle Fuels	1,201,243	136	1,208,748	137	1,140,438	129	1,039,388	118	880,756	100
Severance	398,072	145	282,520	103	275,591	100	271,067	99	274,809	100
Transfer*	72,581	149	56,397	115	42,734	87	48,852	100	--	--
Other	610,878	117	622,191	120	578,213	111	602,977	116	520,042	100
TOTAL	$17,173,824	185	$16,380,372	177	$14,198,697	153	$11,986,091	129	$ 9,256,084	100

*1967=100. This tax source is not computed separately for 1961.

SOURCE: Quindry, Perry, and Perry, op. cit., Table 48.

Chapter IV

UNDERUTILIZATION OF TAXES AND TAX SYSTEMS

National Trends in Underutilization

A tax or tax system can be overutilized or underutilized. A tax is overutilized if the actual collections exceed potential collections. It is underutilized if potential collections exceed actual collections. By the same token, a tax system is overutilized if the total of individual overutilizations exceed the underutilizations, or if total actual collections exceed total potential collections. A system is underutilized if total potential collections exceed total actual collections.

Tables 17 and 18 present in current and constant dollars the sum of underutilized state and local taxes for the nation, by tax, without benefit of reduction by overutilizations which occur in many instances. Because of the methodology used in computing potential collections (an average rate) over- and underutilizations should balance.

By this measure, the underutilization amounts presented in Table 18 increased to $24.1 billion in 1974 from $9.1 billion in 1961, an increase of 165 percent. In the same period of time, actual collections increased by 239 percent and potential collections by 217 percent. This implies some closing of the gap between actual and potential collections and increased uniformity of the 50 state and local tax systems. However, both actual and potential collections grew substantially in volume.

In constant dollars, the increase in the total of underutilization was only 35 percent (to $11.2 billion in 1974 from $8.3 billion in 1961).

The growth in underutilization of the property tax was strong because of the reduced emphasis on this source. Underutilization grew by 229 percent in current dollars as compared with a rate of 165 percent for all taxes. It was followed in order by the individual income tax (201 percent), the corporation income tax (85 percent), and the general sales tax (65 percent). Growth rates in underutilization of the major selective sales taxes were somewhat weaker than those for the major taxes listed just above.

The assumption is implied by the data in the Tables that states could increase taxes in areas where underutilization exists without reducing taxes where overutilization exists. This is not completely realistic. Taxpayers do not always have funds available to pay average taxes in one form and above average taxes in another. The concept presented in Tables 17 and 18, however, is important on a national scale because it indicates that several states are substantially underutilizing every major tax when each is viewed individually. It is of minor consequence to an individual state if another state is overutilizing a particular tax. It is of primary consequence that a particular tax is being underutilized and another tax is being overutilized in a particular region or state.

A more useful figure for comparing tax systems is presented in Tables 19 and 20. They show the amount of underutilization after subtracting overutilized tax amounts in current dollars (Table 19) and in constant dollars (Table 20). Current dollars of underutilization were $5.1 billion in 1974

and $4.2 billion in 1961 (a 21.4 percent increase). Overutilizations in three regions reached $4.7 billion and underutilizations in the other three reached $9.8 billion in 1974. In 1961, the Pacific region alone, primarily influenced by California, overutilized its tax system. By 1974, it was joined by the New England and Middle Atlantic regions.

In constant dollars, underutilization, when offset by overutilization, actually decreased from 1961 to 1974 (Table 20), from $3.9 billion to $2.4 billion (by 62.5 percent).

Regional Trends in Underutilization

Tables 19 and 20 also show the over and underutilization by region. As indicated briefly above, one region, the Pacific, exceeded its potential collections in 1961. Between 1961 and 1974, the New England and Middle Atlantic regions joined the Pacific region in this respect. These are the regions in which pressures for tax increase were greatest, and at least in the two eastern regions, economic growth (potential tax collections) lagged below the national average growth rate.

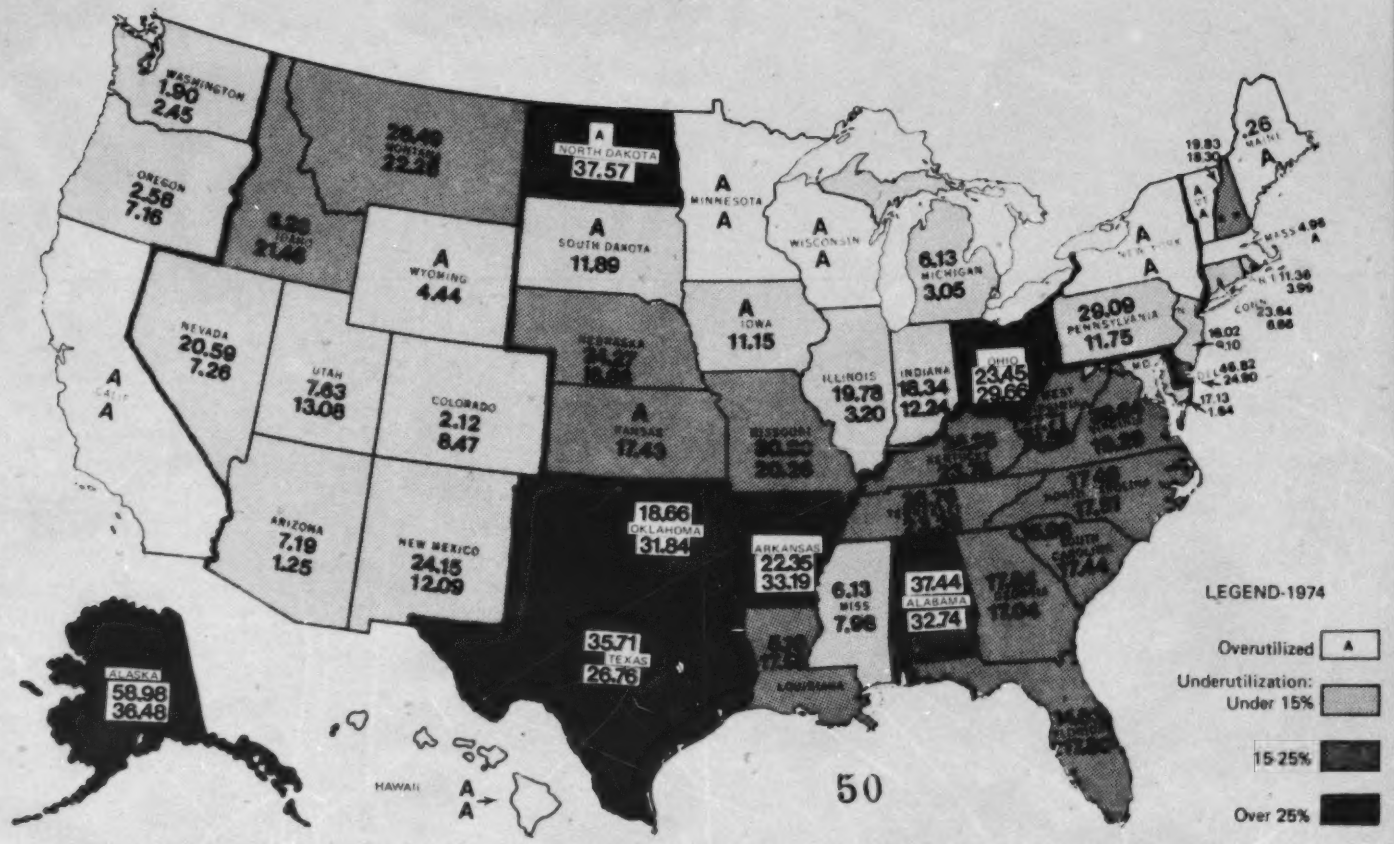
The rate of growth in underutilized potential was greatest in the Mountain region (257 percent). It was followed by the SREB region (244 percent) and the Pacific region (219 percent).

It is especially interesting to note that the underutilization in the SREB states is greater than for the nation in 1974. The national figure was reduced by overutilization in the three regions mentioned above.

While the tables indicate regional growth patterns, they do not allow for an analysis on the state level. Map 3 attempts to do this. In 1974,

MAP 3

Utilization of Tax Systems, By State, 1961-1974



NOTE: Top number is percentage of underutilization for 1961. Bottom number is percentage of underutilization for 1974. If overutilization is present number is replaced by "A."

SOURCE: Quindry, Perry, and Perry, op. cit., Tables 5, 9, 13, 17, 21, 25, 33, 37, 41, 45, 49 and 53.

the states underutilizing their tax systems were scattered across the nation, but many were SREB states. In the SREB region, Mississippi was the only state not strongly underutilizing its tax system; most states underutilized their systems very substantially--by 15 to 25 percent.[8] Outside the SREB region only nine states exceeded the 15 percent limit and four the 25 percent limit.

Maps 4, 5 and 6 indicate the influence of over- and underutilization of property, general sales and income taxes on total actual tax collections. The notation, "A," represents overutilization of the particular source. The percentage notations denote underutilization. The figure roughly represents the percentage that actual collections from all taxes would have increased had the state applied the average tax rate in 1974. For example, a six on Map 4 signifies that total actual tax collections would have been six percent higher if the tax had been applied at the average rate.[9]

Map 4 indicates that most of the non-SREB states over- or underutilized the property tax potential by small amounts; generally it would have affected actual collections by less than ten percent. The revenue effects in all SREB states would have been positive (underutilization); and except in Texas, average use of the property tax would have increased total actual collections in excess of ten percent.

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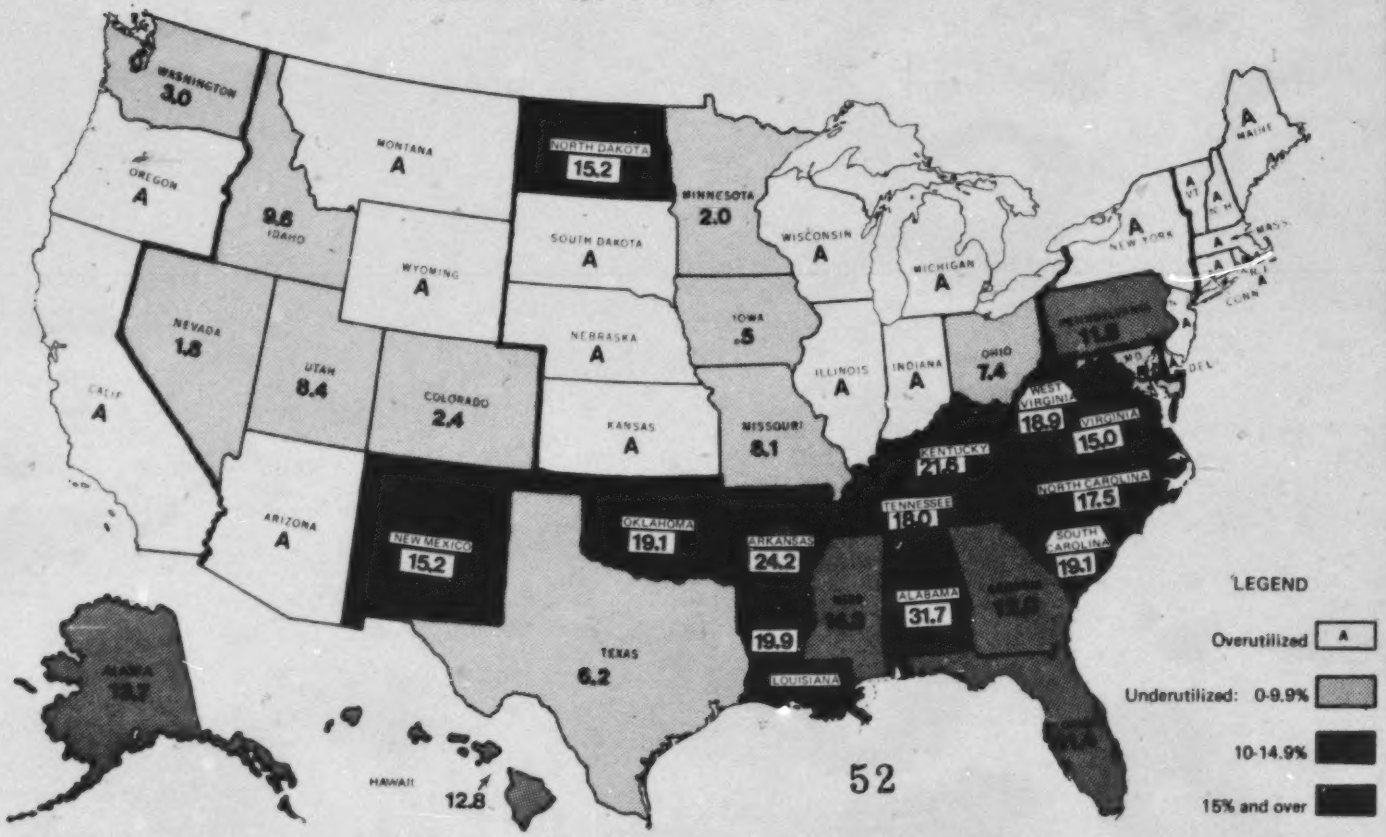
[8]This percentage figure denotes that revenues could have been increased by 15-20 percent if full use were made of the 13 states' tax potential.

[9]That is, actual tax collections would have been 10 percent higher if full use were made of tax potential for the property taxes.

MAP 4

Overutilization and Underutilization of Property Taxes, By State, 1974
(Underutilization of property tax as a percentage of total actual collections)

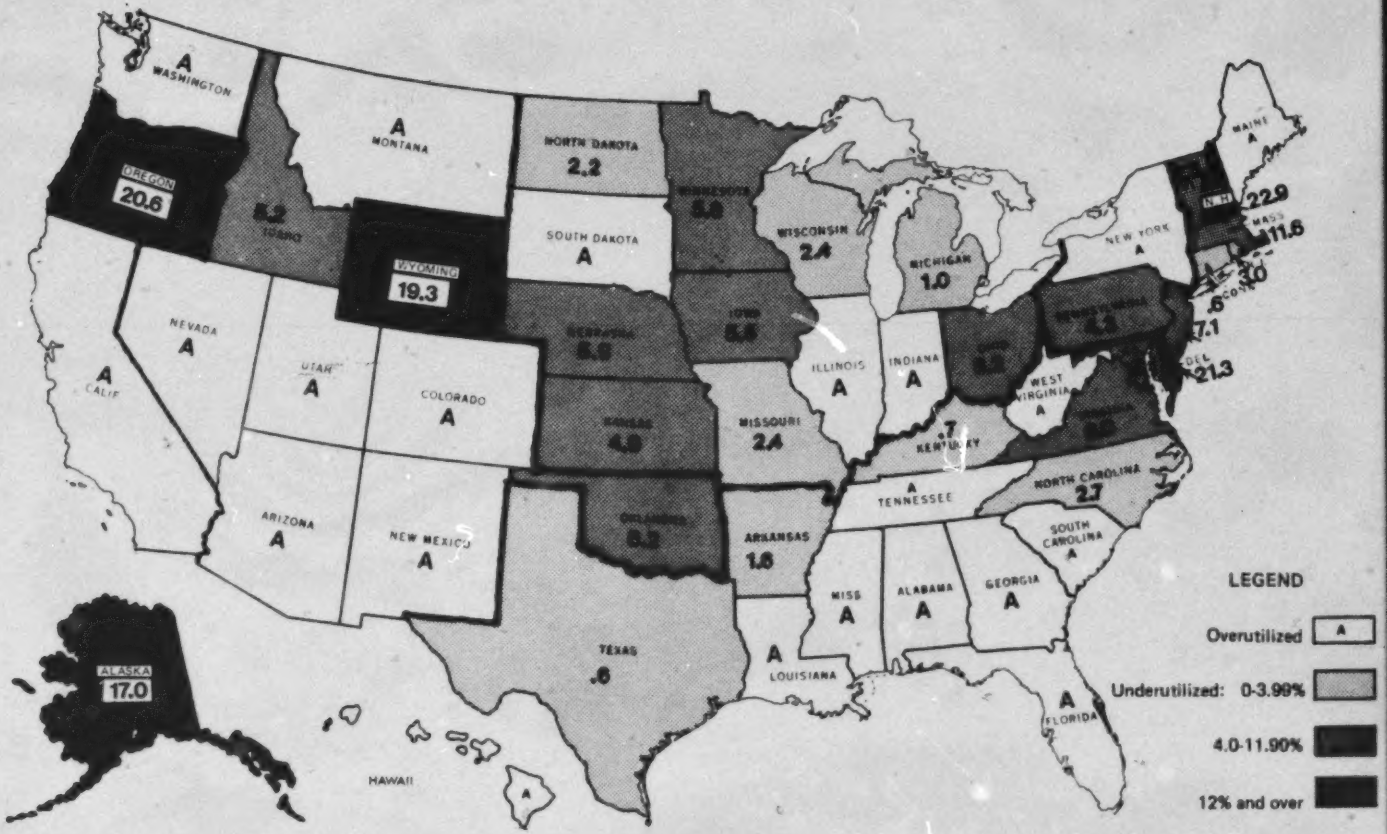


NOTE: The numbers on the map represent the percentage addition to actual tax collections that would result from application of the average tax rate for this source. They do not represent underutilization of this particular source except as it relates to actual collections from all taxes.

SOURCE: The Center for Business and Economic Research, College of Business Administration, The University of Tennessee, Knoxville.

MAP 5

Overutilization and Underutilization of General Sales Taxes, By State, 1974
(Underutilization of general sales taxes as a percentage of total actual tax collections)

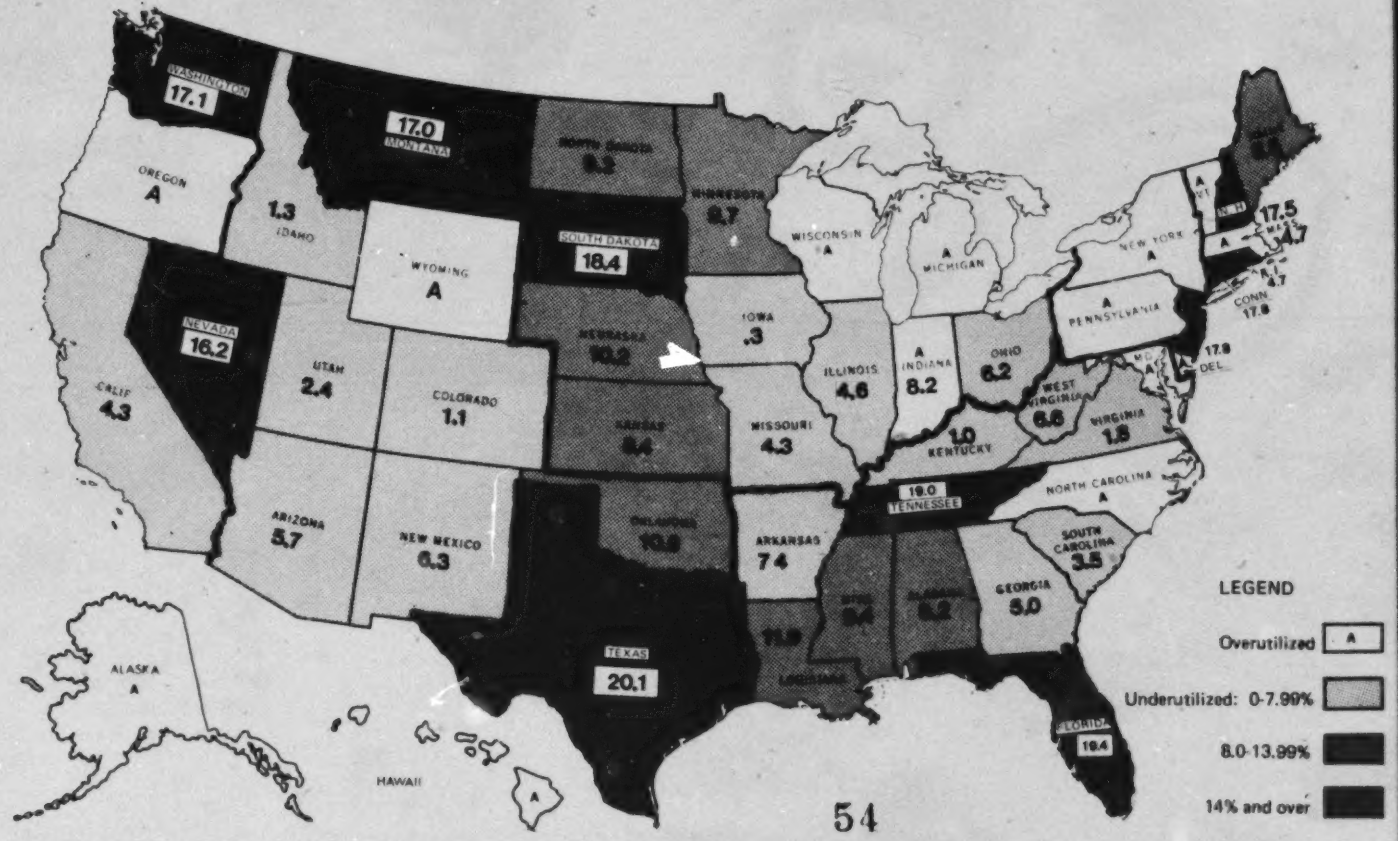


NOTE: The numbers on the map represent the percentage addition to actual tax collections that would result from application of the average tax rate for this source. They do not represent underutilization of this particular source except as it relates to actual collections from all taxes.

SOURCE: The Center for Business and Economic Research, College of Business Administration, The University of Tennessee, Knoxville.

MAP 6

Overutilization and Underutilization of Individual Income Taxes, By State, 1974
(Underutilization of individual income taxes as a percentage of total actual collections)



NOTE: The numbers on the map represent the percentage addition to actual tax collections that would result from application of the average tax rate for this source. They do not represent underutilization of this particular source except as it relates to actual collections from all taxes.

SOURCE: The Center for Business and Economic Research, College of Business Administration, The University of Tennessee, Knoxville.

In contrast, Map 5 indicates the overutilization of general sales taxes in most of the SREB states and a minor underutilization in the others. However, Maryland reached an underutilization of seven percent in 1974.

According to Map 6, two SREB states overutilized their income tax potential in 1974. They were Maryland and North Carolina, and these by only small amounts. In other SREB states there was substantial underutilization. Across the nation, underutilization was widespread with a few major states substantially overutilizing their income tax potential.

An examination of the three maps indicates that a state or region sometimes underutilizes a particular tax source, but when this occurs, it generally overutilizes another major source. Such examples are numerous. A primary one is the underutilization of the property taxes and the overutilization of general (and selective) sales taxes in the SREB states. A few heavily taxed states, however, overutilize or minimally underutilize most major tax sources.

Underutilization of Taxes in the SREB Region

The sum of over- and underutilized taxes in each of the SREB states and the region is shown in Tables 21 and 22 for the indicated years. The amounts represent the additional taxes that would have been collected by each state if the average tax rates had been applied. Rates for overutilized taxes would have been reduced and those for underutilized taxes increased in order to achieve the aggregate average rate.

With one exception (Maryland, 1970), all states underutilized their tax

systems in every year both in current dollars (Table 21) and in constant dollars (Table 22). The region could have raised $6 billion in additional taxes in 1974 by applying average rates for the 15 computed tax sources. All states would have shared in the bonanza, but Texas would have garnered about one-fourth.

In all but three states the underutilized potential rose consistently in the years examined. Only in Maryland was the underutilization less in 1974 than in 1961. Dollar amounts of underutilization for other SREB states generally increased from 3 to 5 times the 1961 level by 1974. Louisiana which increased by tenfold (to $339 million from $32 million) was the leader.

Of the $6 billion in underutilized potential collections, $4.3 billion and $2.8 billion were found in the property and individual income taxes, respectively. The amounts were offset by substantial overutilization of the general and selective sales taxes (approximately $1.6 billion) and reinforced by other minor underutilizations[10] (see Tables 23 and 24).

Summary

1. Underutilization of state and local taxes in the nation increased by 165 percent from 1961 to 1974 before offsets for overutilization.
2. Actual collections increased at a faster rate than potential collections, indicating a greater use of tax potential. However, actual collections, potential collections, and underutilized

[10]Additional data by state can be obtained by contacting the authors or the Southern Regional Education Board.

potential collections all increased substantially in current dollars.

3. The growth rate of underutilization in the property tax was larger than for other major taxes because of the declining emphasis put on that source. It was followed by the individual income tax, the corporation income tax, and the general sales tax, in that order.
4. In constant dollars, underutilization of taxes, after subtraction for overutilization, actually decreased from 1961 to 1974 by 62.5 percent.
5. By 1974, three regions had overutilized their tax potential and three continued to underutilize tax potential.
6. The Mountain region, the SREB region, and the Pacific region led in underutilization growth rates. By 1974, in the SREB region, the underutilized tax potential, after subtracting for overutilized taxes, exceeded $6 billion.
7. Not all states within a region grew at the same rate in underutilized potential.
8. In general, however, the SREB states showed constant growth, and with one minor exception (Maryland, 1970) underutilized their tax potential in every year studied.

TABLE 17

STATE AND LOCAL UNDERUTILIZED TAX POTENTIAL,
SELECTED YEARS, 1961 TO 1974,
BY TYPE OF TAX, CURRENT DOLLARS
(Dollar Amounts in Thousands)

Tax Source	1974		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
General Sales and Gross Receipts	$ 3,447,706	165	$ 2,529,568	121	$ 2,078,142	100	$ 2,041,998	98	$ 2,088,537	100
Alcoholic Beverages	535,985	222	506,989	210	473,536	196	348,285	144	241,540	100
Tobacco Products	412,806	219	346,428	184	280,370	149	282,259	150	188,591	100
Insurance	164,548	349	141,566	301	84,406	179	66,483	141	47,084	100
Public Utilities	979,021	400	825,470	337	795,601	325	408,924	167	244,784	100
Other Selective Sales	624,276	634	497,575	505	311,735	317	189,828	193	98,481	100
Death and Gift	288,694	269	291,861	272	218,034	203	165,987	155	107,269	100
Property	6,670,924	329	5,585,114	276	3,988,579	197	3,027,835	149	2,026,713	100
Individual Income	7,351,612	301	5,962,402	244	4,951,891	203	4,075,571	167	2,442,900	100
Corporate Income	1,512,335	185	1,271,461	156	1,439,373	176	1,319,053	162	815,808	100
Alcoholic Beverage License	43,175	137	44,426	141	41,447	131	57,230	181	31,592	100
Motor Vehicle License	486,260	237	425,981	207	361,066	176	309,764	151	205,595	100
Motor Vehicle Fuels	525,001	232	369,168	163	272,390	120	268,895	119	226,676	100
Severance	675,263	214	424,304	135	409,060	130	357,820	113	315,364	100
Transfer*	395,630	191	268,856	130	196,526	95	207,490	100	0	--
Other	0	0	0	0	0	0	0	0	0	100
TOTAL	$24,113,165	266	$19,491,136	215	$15,902,156	175	$13,127,422	145	$ 9,080,934	100

*1967=100. This tax source is not computed separately for 1961.

SOURCE: Quindry, Perry, and Perry, op. cit., Table 57.

TABLE 18

STATE AND LOCAL UNDERUTILIZED TAX POTENTIAL,
SELECTED YEARS, 1961 TO 1974,
BY TYPE OF TAX, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

Tax Source	1974		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
General Sales and Gross Receipts	$ 1,603,584	84	$ 1,377,010	72	$ 1,262,540	66	$ 1,497,066	78	$ 1,909,083	100
Alcoholic Beverages	249,295	113	275,987	125	287,689	130	255,341	116	220,786	100
Tobacco Products	191,982	111	188,584	109	170,334	99	206,935	120	172,387	100
Insurance	76,534	178	77,064	179	51,279	119	48,741	113	43,038	100
Public Utilities	455,359	204	449,358	201	483,354	216	299,798	134	223,751	100
Other Selective Sales	290,361	323	270,863	301	189,389	210	139,170	155	90,019	100
Death and Gift	134,276	137	158,879	162	132,463	135	121,691	124	98,052	100
Property	3,102,755	167	3,040,345	164	2,423,195	131	2,219,821	120	1,852,571	100
Individual Income	3,419,355	153	3,245,728	145	3,008,439	135	2,987,956	134	2,232,298	100
Corporate Income	703,412	94	692,140	93	874,467	117	967,048	130	745,711	100
Alcoholic Beverage License	20,081	70	24,184	84	25,180	87	41,957	145	28,678	100
Motor Vehicle License	226,167	120	231,890	123	219,360	117	227,100	121	187,950	100
Motor Vehicle Fuels	244,187	118	200,962	97	165,486	80	197,137	95	207,199	100
Severance	314,076	109	230,977	80	248,518	86	262,332	91	288,267	100
Transfer*	184,014	121	146,356	96	119,396	78	152,119	100	0	0
Other	0	0	0	0	0	0	0	0	0	100
TOTAL	$11,215,431	135	$10,610,319	128	$ 9,661,085	116	$ 9,624,207	116	$ 8,300,666	100

*1967=100. This tax source is not computed separately for 1961.

SOURCE: Quindry, Perry, and Perry, op. cit., Table 58.

TABLE 19

STATE AND LOCAL UNDERUTILIZED TAX POTENTIAL,

SELECTED YEARS, 1961 TO 1974,
BY REGION, CURRENT DOLLARS
(Dollar Amounts in Thousands)

Region	1974 Amount	1974 Index	1972 Amount	1972 Index	1970 Amount	1970 Index	1967 Amount	1967 Index	1961 Amount	1961 Index
New England States	(-) $ 516,382		(-) $ 360,638		$ 49,044		$ 318,529		$ 240,901	100
Middle Atlantic States	(-) 3,023,672		(-) 2,025,376		(-) 1,154,912		(-) 453,373		651,765	100
North Central States	2,960,064		2,157,488		1,698,192		2,368,976		1,326,187	100
SREB States	6,033,288		5,465,008		3,763,568		2,773,832		1,909,495	100
Mountain States	850,809		558,100		340,129		124,178		213,587	100
Pacific States	(-) 1,228,576		(-) 1,447,704		(-) 1,181,185		(-) 819,648		(-) 296,156	100
District of Columbia	44,255		49,748		37,135		312,755*		204,072	100
Total Overutilized	(-) 4,768,630		(-) 3,833,718		(-) 2,336,097		(-) 1,273,021		(-) 296,156	100
Total Underutilized	9,888,416		8,230,344		5,888,068		5,898,270		4,546,007	100
Total Difference	$5,119,786		$4,396,626		$3,551,971		$4,625,249		$4,249,851	100

* No collection data available for these years.

NOTE: (-) denotes overutilization of taxes in this region.

SOURCE: This report, Tables 3 and 11.

TABLE 20

STATE AND LOCAL UNDERUTILIZED TAX POTENTIAL,
SELECTED YEARS, 1961 TO 1974,
BY REGION, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

Region	1974		1972		1970		1967		1961	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
New England States	(-) $ 240,198		(-) $ 196,320		$ 29,798		$ 233,525		$ 220,200	
Middle Atlantic States	(-) 1,406,324		(-) 1,102,523		(-) 701,640		(-) 332,385		595,763	
North Central States	1,376,742		1,174,438		1,031,724		1,736,798		1,212,236	
SREB States	2,806,455		2,974,961		2,286,509		2,033,602		1,745,424	
Mountain States	395,724		303,811		206,637		91,040		195,235	
Pacific States	(-) 571,452		(-) 788,097		(-) 717,611		(-) 600,915		(-) 270,710	
District of Columbia	20,584		27,081		22,561		229,292*		186,537*	
Total Overutilized	(-) 2,217,974		(-) 2,086,940		(-) 1,419,251		(-) 933,300		(-) 270,710	
Total Underutilized	4,599,169		4,480,291		3,577,229		4,324,257		4,155,395	
Total Difference	$2,381,195		$2,393,351		$2,157,978		$3,390,957		$3,884,685	

* No collection data for District of Columbia in these years.

NOTE: (-) denotes overutilization of taxes in this region.

SOURCE: This report, Tables 4 and 12.

TABLE 21

STATE AND LOCAL UNDERUTILIZED TAX POTENTIAL, SREB STATES,
SELECTED YEARS, 1961 TO 1974,
BY STATE, CURRENT DOLLARS
(Dollar Amounts in Thousands)

State	1974	1972	1970	1967	1961
Alabama	$ 464,653	$ 422,417	$ 265,565	$ 193,384	$ 154,221
Arkansas	267,329	205,401	157,385	77,428	52,972
Florida	770,274	699,723	477,089	238,985	144,848
Georgia	401,960	399,957	309,541	180,741	106,207
Kentucky	354,873	317,165	182,648	155,181	117,299
Louisiana	339,510	236,622	218,975	144,907	31,893
Maryland	45,548	157,732	(-) 26,557	120,881	111,324
Mississippi	80,634	97,824	6,091	29,077	17,859
North Carolina	452,955	442,504	240,942	165,709	116,636
South Carolina	209,350	213,277	151,734	96,432	50,589
Tennessee	415,430	351,348	253,111	209,808	131,848
Texas	1,555,871	1,343,148	1,157,182	829,225	573,625
Virginia	496,722	460,929	271,344	253,124	221,082
West Virginia	178,220	116,981	98,563	78,970	79,101
TOTAL	6,033,288	$5,465,008	$3,763,568	$2,773,832	$1,909,495

NOTE: (-) denotes overutilization of taxes in this state.

SOURCE: This report, Tables 5 and 13.

TABLE 22

STATE AND LOCAL UNDERUTILIZED TAX POTENTIAL, SREB STATES,
SELECTED YEARS 1961 TO 1974,
BY STATE, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

State	1974	1972	1970	1967	1961
Alabama	$ 216,118	$ 229,950	$ 161,340	$ 141,777	$ 140,970
Arkansas	124,339	111,813	95,616	56,765	48,421
Florida	358,266	380,904	289,845	175,207	132,402
Georgia	186,957	217,719	188,054	132,508	97,082
Kentucky	165,057	172,654	110,964	113,769	107,220
Louisiana	157,911	128,809	133,035	106,237	29,153
Maryland	21,186	85,863	(-) 16,135	88,623	101,759
Mississippi	37,504	53,252	3,700	21,318	16,324
North Carolina	210,653	240,881	146,377	121,488	106,614
South Carolina	97,371	116,101	92,184	70,698	46,242
Tennessee	193,223	191,262	153,773	153,818	120,519
Texas	723,660	731,163	703,025	607,936	524,335
Virginia	231,031	250,913	164,849	185,575	202,086
West Virginia	82,892	63,680	59,880	57,896	72,305
TOTAL	$2,806,155	$2,974,961	$2,286,509	$2,033,602	$1,745,424

NOTE: (-) denotes overutilization by this state.

SOURCE: This report, Tables 6 and 14.

TABLE 23

STATE AND LOCAL UNDERUTILIZED TAX POTENTIAL, SREB STATES,

SELECTED YEARS, 1961 TO 1974,
BY TYPE OF TAX, CURRENT DOLLARS
(Dollar Amounts in Thousands)

Tax		1974		1972		1970		1967		1961
General Sales and Gross Receipts	(-)	$ 476,349	(-)	$ 429,217	(-)	$ 226,832		$ 87,680		$ 346,132
Alcoholic Beverages	(-)	284,933	(-)	219,181	(-)	189,187	(-)	127,044	(-)	77,355
Tobacco Products		2,656	(-)	16,431		4,921	(-)	21,473	(-)	55,288
Insurance	(-)	73,043	(-)	37,973	(-)	28,553	(-)	32,257	(-)	18,739
Public Utilities	(-)	382,398	(-)	314,330	(-)	368,590	(-)	40,097		3,454
Other Selective Sales	(-)	256,058	(-)	198,824	(-)	132,645	(-)	79,028	(-)	40,835
Death and Gift		124,327		131,226		108,758		71,172		51,912
Property		4,321,487		3,884,373		2,760,158		1,777,470		1,160,328
Individual Income		2,754,813		2,293,147		1,360,814		950,260		492,590
Corporate Income		545,953		452,723		513,157		261,123		170,786
Alcoholic Beverage License		6,155		9,398		15,287		21,802		11,288
Motor Vehicle License		123,044		128,078		106,858		88,821		64,580
Motor Vehicle Fuels	(-)	170,115	(-)	118,184	(-)	73,134	(-)	121,364	(-)	149,505
Severance	(-)	164,396	(-)	68,372	(-)	92,200	(-)	88,320	(-)	49,853
Transfer	(-)	37,758	(-)	30,429		4,783		25,087		n.a.
Other 1/		0		0		0		0		0
TOTAL		$6,033,288		$5,465,008		$3,763,568		$2,773,832		$1,909,495

NOTE: (-) denotes overutilization of this tax in the SREB region.

1/ assured to have no potential.

SOURCE: This report, Tables 7 and 15.

TABLE 24

STATE AND LOCAL UNDERUTILIZED TAX POTENTIAL, SREB STATES.

SELECTED YEARS, 1961 TO 1974,
BY TYPE OF TAX, CONSTANT DOLLARS
(Dollar Amounts in Thousands)

Tax		1974		1972		1970		1967		1961
General Sales and Gross Receipts	(-)	$ 221,571	(-)	$ 233,652	(-)	$ 137,808		$ 64,282		$ 316,391
Alcoholic Beverages	(-)	132,551	(-)	119,314	(-)	114,938	(-)	91,140	(-)	70,708
Tobacco Products		1,215	(-)	8,942		2,989	(-)	15,742	(-)	50,538
Insurance	(-)	33,974	(-)	20,671	(-)	17,347	(-)	23,649	(-)	17,128
Public Utilities	(-)	177,860	(-)	171,111	(-)	223,931	(-)	29,397		3,157
Other Selective Sales	(-)	119,097	(-)	108,233	(-)	80,586	(-)	57,939	(-)	37,326
Death and Gift		57,826		71,435		66,074		52,179		47,451
Property		2,009,995		2,114,520		1,676,889		1,303,131		1,060,629
Individual Income		1,281,309		1,248,311		826,740		606,671		450,265
Corporate Income		253,931		246,447		311,760		191,440		156,112
Alcoholic Beverage License		2,862		4,571		9,287		15,984		10,318
Motor Vehicle License		57,228		60,721		64,920		65,118		59,031
Motor Vehicle Fuels	(-)	79,124	(-)	64,335	(-)	44,432	(-)	88,976	(-)	136,659
Severance	(-)	76,463	(-)	37,219	(-)	56,015	(-)	64,850	(-)	45,569
Transfer	(-)	17,562	(-)	16,564		2,906		18,392		n.a.
Other		--		--		--		--		--
TOTAL		$2,806,155		$2,974,961		$2,286,509		$2,033,602		$1,745,424

NOTE: (-) denotes overutilization of this tax in the SREB region.

SOURCE: This report, Tables 8 and 16.

Chapter V

UNDERUTILIZED POTENTIAL TAX COLLECTIONS AND ALTERNATIVE USES FOR FINANCING HIGHER EDUCATION, 1972

Introduction

Public higher education in the United States has historically received support from federal, state, and local sources as well as private sources. The support has been fairly effective in providing quality education, but financial stringency has always been a problem. It is a fairly well accepted fact that the primary responsibility for financing higher education, and especially for increasing funding if such is to occur in the next decade, will fall on the states. Furthermore, the state's responsibility pertains to private as well as public institutions.

This chapter looks at the state underutilized potential collections and visualizes, by its utilization, the possibility of some improvement in the level of financing for both private and public institutions. The potential for additional support is present in most states, but the desire on the part of taxpayers to pay increased taxes for this function is unsure.

Starting from the level of the state's contribution to the support of higher education (as a percentage of general revenue from own sources), this chapter then proposes that a like percentage of each state's underutilized tax collections, if levied, could be used to finance higher education. That percentage of general revenues would be appropriated to

higher education.[11]

In this chapter underutilized potential tax collections are reviewed under the assumption that taxpayers would be willing to pay additional state taxes and that legislatures would be willing to appropriate the indicated amounts to higher education. While there may be numerous ways the funds could be usefully employed, the additional funds in this report are indicated for one or more of three purposes: to increase FTE appropriations, to provide support for private institutions, and/or to provide support for additional students not now enrolled. The representative analyses were made for the fiscal and academic year of 1972.

The three causes are taken up in order and independently in the next three sections. If, however, a state contributes increased funds to higher education in one form, it would not necessarily be able to do so in another. Thus, the three functions (and others) could be taken up in tandem--if the state appropriates additional funds for one purpose (and the funds are used for that purpose), would funds be left for the alternative functions? The summary picture is presented in Chart 1 for the SREB states.[12]

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[11]That is, if a state now allocates 10 percent of its general revenue from own sources to higher education, it would appropriate ten percent of any additional tax collections to higher education. Allocations to higher education include not only state appropriations, but also contributions through grants, contracts, student aid, and such. Allocations are further limited to those for current expenditures, excluding capital expenditures and auxiliary enterprises.

[12]Data for all 50 states are presented in Quindry, Perry and Perry, op. cit. Chapters V-VIII.

Underutilized Potential and Allocations to Higher Education

Underutilized potential in 1972 reached $10.5 billion in the 50 states, of which $5.4 billion (just over half) was centered in the SREB region. Another $2.9 billion (just over one-fourth) was found in the North Central region.[13] While every region enjoyed some underutilization, eight states overutilized their tax systems.[14]

In 1972, states allocated 11.8 percent of their general revenues from own sources to higher education, but the percentage varied greatly from state to state. By applying the relevant percentage in each state to the underutilized potential, over $1.2 billion would be indicated as available for appropriation to higher education. Regional distributions follow closely the distribution of underutilized potential collections, with 58.4 percent located in the SREB region and 31.8 percent in the North Central region.[15] Higher education institutions in both the eastern and western seaboard states would benefit very little because of their decided lack of underutilized potential and/or their generally low support of higher education as measured

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[13]Quindry, Perry and Perry, op. cit., Table 92. The regional underutilized amounts derived from Table 92 include underutilization for those states where potential exceeds collections. There is no subtraction in Table 92 for overutilization of other states in the region. Summing the underutilizations without subtraction of overutilization in other states results in slightly different regional underutilizations than those shown in Table 19, where underutilizations are net of other states' overutilizations.

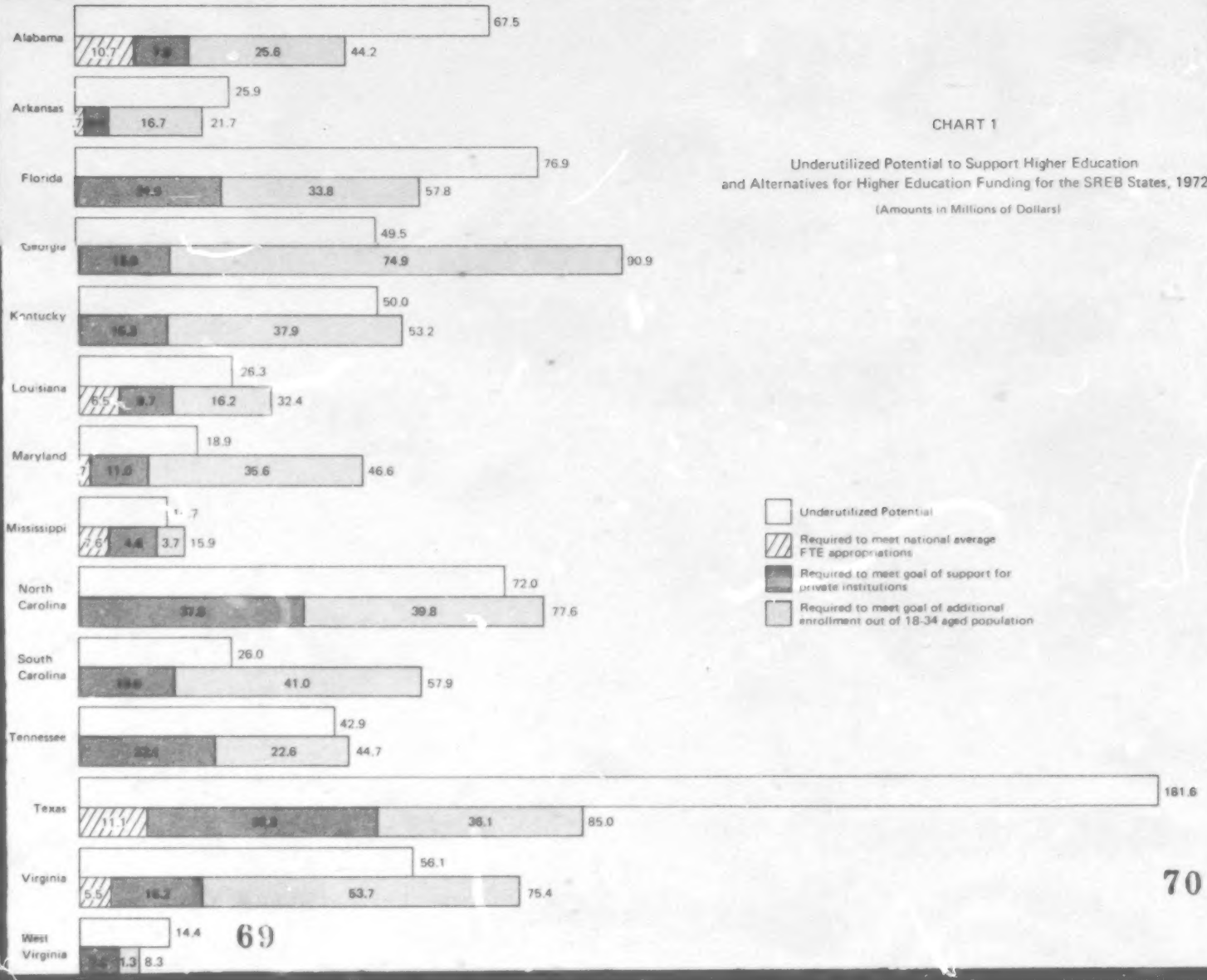
[14]These states were Maine, Massachusetts, New York, Minnesota, South Dakota, Wisconsin, California and Hawaii.

[15]Quindry, Perry and Perry, op. cit., Table 93.

CHART 1

Underutilized Potential to Support Higher Education and Alternatives for Higher Education Funding for the SREB States, 1972

(Amounts in Millions of Dollars)



as a percentage of general revenues from own sources, not per FTE student support.

First Alternative Use:
Requirements to Meet Average FTE State Appropriations

Within the United States exactly one-half of the states appropriated, for current purposes, less than the 50-state average of $1,298 per FTE student in 1972.[16] It is assumed then that they could have used some of their underutilized potential, if available, to increase their average FTE student appropriations. However, seven states (North Dakota, South Dakota, Arizona, Colorado, Montana, California, and Oregon) had no underutilized potential or less than adequate amounts to meet the requirement.

Within the SREB region, the distribution was also exactly 50-50. Each of the seven below-average states, however, had sufficient underutilized potential to meet the requirement. (See Chart 1).

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[16]The states were New Hampshire, Vermont, Delaware, Kansas, Nebraska, North Dakota, Ohio, South Dakota, Alabama, Arkansas, Louisiana, Maryland, Mississippi, Texas, Virginia, Arizona, Colorado, Idaho, Montana, New Mexico, Oklahoma, Utah, Wyoming, California, and Oregon. The state average can be affected by many factors such as economies of scale, the mix of programs offered, the tyne of institutions supported, regional variations in cost of service delivery. Thus FTE student support is not a reliable measure of quality until adjusted fo. these factors. States enjoying these economies can be expected to provide quality education at relatively low cost.

Second Alternative Use:
Providing Additional Financing to Private Institutions

The assumption here is that states may want to provide some support to private institutions if they utilized their tax potential more fully. For representative purposes only, underutilized potential was measured against support for private institutions equal to 50 percent of the FTE student appropriations for public institutions. Some states were already providing some support to private institutions, but less than the indicated amount. Current support was included as part of the proposed support. Therefore, additional funds would have been needed in every state to meet the requirement. States not having underutilized potential sufficient to meet this goal were widely scattered in the New England, the Middle Atlantic and the North Central regions.[17]

Within the SREB region, every state could have met this requirement in 1972. In fact, they could have met it after having satisfied the goal of increasing average FTE student appropriations.

Third Alternative Use:
Enrolling Additional Students in the 18-34 Age Group

Some states have not been as successful as others in enrolling additional students in higher education. In 1972, the percent of the 18-34 aged group enrolled as FTE students in public and private institutions in the

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[17]They were Connecticut, Maine, Massachusetts, Rhode Island, New York, Pennsylvania, Illinois, Iowa, Michigan, Minnesota, South Dakota, Wisconsin, Arizona, Montana, Utah, California, Hawaii and Washington.

nation was 13.95. However, regions ranged from 11.81 percent in the SREB region to 17.03 percent in the Mountain region. In the SREB region, the range was from 9.62 percent in Kentucky to 13.72 percent in West Virginia. No SREB state reached the average; thus, if SREB states had enrolled the average percentage of students in public institutions and supported them at the average level in 1972, additional funds would have been needed in every state.

Again, on the national level, half of the 50 states enrolled in excess of the average percentage and no additional funds would be called for.[18] Of the remaining 25 states, nine would have had insufficient funds to meet this requirement[19] and fifteen could have done so.

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[18]These states were Massachusetts, New Hampshire, Rhode Island, Vermont, Delaware, New York, Iowa, Kansas, Minnesota, Nebraska, North Dakota, South Dakota, Wisconsin, Arizona, Colorado, Idaho, Montana, New Mexico, Oklahoma, Utah, Wyoming, California, Hawaii, Oregon and Washington.

[19]These states were Connecticut, Maine, New Jersey, Pennsylvania, Georgia, Maryland, South Carolina, Nevada and Alaska.

Summary

1. In 1972, 11.80 percent of the states' general revenues from own sources were allocated to higher education.
2. Underutilized potential reached $10.5 billion, about three-fourths of which was found in the SREB and the North Central regions.
3. By these measures, if the underutilized potential were utilized, it is reasonable to expect that 11.80 percent of the $10.5 billion would be appropriated to higher education.
4. While various uses could be made of the funds, three critical areas are: increasing and equalizing expenditures per FTE students, enrolling additional students, and supporting private institutions.
5. Most states could have contributed to these three (or other) goals of financing higher education through fuller use of their underutilized potential.
6. Every SREB state could have contributed to the three goals. However, only five of the SREB states could have accomplished the goals fully as they are computed in this report.